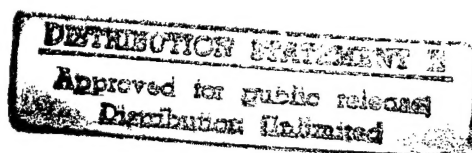




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# ***JPRS Report***



# **China**

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# China

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14 September 1992

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## NATIONAL AFFAIRS, POLICY

### Price Trends Analyzed To Predict Future Trends

92CE0617A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 6, 17 Jun 92 pp 11-14

[Article by Wang Yuanhong (3769 6678 7703), Cheng Jianlin (4453 1696 2651), and Li Yao (2621 1031), National Information Center: "Current Market Prices—Analysis, Forecast, and Recommendations"]

[Text] On top of a seven consecutive month approximately 4 percent rise in prices during 1991, prices rose another 5.1 percent in January, 4.9 percent in February, 5.0 percent in March, and 6.2 percent in April over prices during the same period in 1991. This price rise trend aroused general concern, and cries of "the wolf is coming" grew louder with each passing day. Therefore, how to judge the current price situation and take corresponding policy actions is a task facing us today.

#### I. Nature of Current Changes in Market Prices

A. Market demand has steadily increased, and rural markets are rebounding fastest. Gross industrial output value at the township level and above for the year increased 12.9 percent over 1991, and total retail sales for the year increased 13.2 percent. During the first quarter of 1992, industrial gross output value increased 18.2 percent over the same period in the previous year, and total retail sales increased 16.3 percent over the same period in the previous year. Specifically, food markets were consistently brisk, and sales of grain, edible vegetable oils, meat, poultry, and eggs saw steady growth. Clothing markets were both hot and cold. Sales of lining materials for clothing were relatively flat, and sales of cotton cloth, mixed cotton and chemical fiber fabrics, chemical fiber fabrics, and silk declined. All kinds of fashionable clothing, medium and high quality clothing, and high grade lining materials found favor with consumers. Popular styles of clothing made of fine material sold at a low price also attracted a wide market. Sales of household electrical appliances and gold decorations dominated industrial consumer goods markets. Sales of color television sets, electric refrigerators, and washing machines began to rebound. Rural market sales of household appliances showed an upturn, some areas showing very brisk sales. Both building materials markets and home decoration sales volume rose. Among pharmaceuticals and medical treatment items, health care product sales made a good showing. Agricultural means of production markets also exhibited brisk purchases and sales. Means of production markets began to rally during the fourth quarter of 1990, and in 1991 means of production sales volume in the materials system showed a rate of cumulative growth each month that was higher during the same periods in the previous year. Sales of both capital construction materials and raw materials used in production increased to varying

degrees. Current development of consumer goods markets and means of production markets show that overall the country's commodities markets have revived to the normal pre-1988 level.

B. Accompanying the rallying of demand was a gradual rebound of prices. During 1991, prices were basically flat. Prices declined during each of the first four months, and it was only after May that prices showed a rebound as a result of the rise in the uniform sale price of grain and edible oil, the rate of price increases steadying at around 4 percent and showing a 2.9 percent rise for the entire year. In 1992, price rises accelerated. During January, February, and March, retail prices rose 5.1, 4.9, 5.0, and 6.2 percent respectively, and the cost of living rose 5.5, 5.3, 5.3, and 7.1 percent respectively.

C. Changes in the price structure show an easing in structural conflicts. This was manifested as follows: (1) a fairly low rate of increase in commodity prices and a fairly high rate of increase in prices of services for a change in the overly low prices in the tertiary industry. During January, February, and March 1992, the price index for services rose 8.5, 8.9, and 8.3 percent to top the consumer retail price index during the same period of 5.1, 4.9, and 5.2 percent. (2) Prices of the means of production in commodity markets rose substantially; two track price differences generally narrowed; and price inversion between some commodities inside and outside plan occurred. As the national economy gradually rallied, some means of production price adjustments that first appeared during the last half of 1990 continued into 1991. In addition, the state also raised prices in a planned way for crude oil, refined oil, and steel and iron products, and merged cement prices inside and outside plan on a single track. Local governments also began to adjust prices of some items, thereby causing a rebound in procurement prices of raw and processed materials, fuel, and power, as well as ex-factory prices of industrial wares in an average 9.1 percent increase over the previous year. Ex-factory prices of industrial wares rose 6.2 percent for the year, topping the 4.1 percent rise of 1990. These price adjustment measures helped gradually change the too low price pattern of basic products for further improvement in the industrial goods price structure. This narrowed appreciably the "two track" price differential for means of production. The price differential for processed steel declined from 45.9 percent in 1988 to 10.3 percent in 1991; the price differential for coal declined from 167.0 percent in 1989 to 41.1 percent; and the price differential for copper, aluminum, lead, zinc, and caustic soda ranged between only 6 and 11 percent. The outside plan price of some products such as sodium carbonate and epoxy resin is lower than the plan price. The plan price for sodium carbonate is 2.7 percent higher than the market price, and the plan price for epoxy resin is 10,300 yuan per ton higher than the market price.

D. Cost pressures on prices mounted steadily, and demand played a marked role in the adjustment of prices. During the first quarters of 1990, 1991, and 1992,



comparable costs rose 6.5, 5.2, and 3.6 percent respectively over the same period in the previous year, and total losses increased 14.4, 10.6, and 6.4 percent respectively over the same period in the previous year. The rise in enterprise costs and losses exerted very great pressure on prices. The main reason for inability to release the powerful cost pressure lay in weak market demand. Cost pressures could not be shifted elsewhere. This situation confirmed the increasingly great regulatory role of demand on prices. In 1991, the state readjusted the ex-factory prices of crude oil, refined oil, iron and steel, freight transportation prices, the uniform sale price of grain and edible oil, and the price of coal. It removed restraints on cigarette retail sale prices. Some local jurisdictions also adjusted prices of some items. Central government price adjustments alone totaled 29.4 billion yuan, but despite the substantial money amount of the adjustments, and the number of items involved, because of restrained demand, the effect on the overall price level was not very great. Plan price readjustments in 1991 resulted in the retail price index rising 4.4 percentage points and market regulated prices declining for an approximately 1.5 percentage point decline in the overall price level. Comparison of commodity retail prices in 1991 with the same period during the previous year showed an 11.9 percent rise in state-set prices, a 2.1 percent rise in state guidance prices, and a 3.2 percent drop in market regulated prices. However, country fair trade prices, which sensitively reflect the balance between total supply and demand and between agricultural surpluses and shortages, fell for 20 consecutive months after October 1989, and they did not begin to rebound until June 1991. In 1991, market prices of means of production, and prices of commodities within plan rose 5 percent while market prices fell 1.4 percent. It is noteworthy that since 1992 the country fair trade consumer good price index rose from 0.8 percent in December 1991 to 3.7 percent in January 1992. In February, it showed a -0.3 percent rise, and in March, it rose 2.0 percent. Means of production prices during the first quarter of 1992 rose 1.2 percent over the same period in 1991, including a new 0.8 percent rise in 1992. This also shows that with the rallying of market demand, the pull of demand on prices became increasingly great.

E. Regionally, the momentum toward price rises was restrained. Prices rose much higher in cities and towns than in rural villages. In 1991, a change occurred in that no longer were prices in rural villages higher than in cities, the retail price index in cities and towns becoming 2.5 percentage points higher than in rural villages. Price rises varied from place to place and regional "commodity wars" were effectively curtailed. The regional price rise conducting mechanism was brought under control. In places that had been regional hot spots for price rises such as Guangdong Province, local prices were lower than the national level. In large and medium size cities, however, particularly in the three directly administered municipalities, price levels were far higher than the national average. This also betokened the desire of all jurisdictions to get rid of their price subsidy burdens

with the rebound in demand. Large and medium size cities and economically developed areas might once again become regional "price rise" hot spots, and "export" inflation to undeveloped areas.

## II. Analysis of Factors Affecting Current Price Levels

A. Inflationary pressures continue to exist. First, the institutional factors that spark inflation have not been eliminated. For example, a momentum toward the expansion of investment exists in local governments and enterprises; production and operating enterprises generally lack self-restraint in that they take responsibility for their profits but not their losses; the industrial structure and the product mix continue irrational; in the distribution of profits, enterprises are inclined to favor individual consumption; and the macroeconomic control mechanism is not yet complete. This conceals the possibility of investment and consumption inflation, thereby leading to a new rise in prices. Second is the consecutive year fiscal deficit during the Seventh Five-Year Plan, and a trend toward gradually widening in the size of the deficit, particularly during the past two years. On the one hand, fiscal revenues showed little increase because of the poor returns of large and medium size enterprises, while fiscal expenditures have become intolerable as a result of the steady increase in enterprise management costs and various subsidies. Today, the state's financial burden for price subsidies and subsidization of enterprise losses accounts for one-third of fiscal revenues, and the state is faced with numerous factors that increase expenditures and reduce revenues. More key construction, such as greater investment in agriculture and overhauling the industrial structure will require state financial support; entry into the peak period for debt repayment will increase fiscal expenditures; and depreciation rates for fixed assets, which is needed to hasten the pace of technological transformation, will gradually rise. Solving the problem of budget revenues that do not meet expenditures will require that the state reduce price subsidies and the subsidization of enterprise losses related to prices. This will directly cause a rise in the price level. It will also increase government bank borrowing and overdrafts. The large bank issuance of paper money to the government will cause a rise in latent inflationary pressures. At the same time, the large amount of residual loans and the draining away of cash accompanying a tremendous increase in bank loans can result in economic reform suddenly turning hot, demand-driven inflation changing from a pressure to a reality.

B. A further rebound in demand will spur faster rise in prices. During 1991, China's economy and market sales showed marked revival. In 1992, investment in fixed assets will continue to increase, the total amount of credit will continue to expand, and both industrial production and market sales will rise steadily. The tremendous rebound in demand that accompanies economic growth and flourishing markets will bring into play the cost transfer mechanism, thereby causing a trend toward accelerated rise in price levels. In recent

years, changes in price levels and changes in economic growth (the gross output value of society) have been in the same direction, but fluctuation peaks have lagged by a year. Relevant analysis shows a high degree of correlation between changes in the gross output value of society, which is a year ahead, and changes in the retail price level, the correlation coefficient being 0.80. As the economy gradually warmed in 1986, the price level rose with it, economic growth reaching a peak in 1987. During this period, the rise in prices also accelerated, peaking in 1988. By this time, however, the degree of economic growth had begun to go back down. When the economy was at the bottom of a trough in 1989, prices had declined only slightly. In 1990, when the economy began to rebound, prices were just beginning to enter the bottom of a trough. During 1991, when economic growth picked up, prices rebounded slowly. Thus, it may be predicted that with a further rebound in the economy during 1992, the rise in prices will tend to accelerate, the extent of rise being determined by the rebound in demand.

C. An overhaul of the price structure will be the most direct reason leading to a rise in the price level. The main factor causing a rise in retail prices during the past several years when market prices were generally steady or declining was the rise in state plan prices. More than a decade of price reforms have centered around the building of a rational price system, reforms concentrating excessively on the price control mechanism and the building of a new price formation mechanism. However, the serious inflation of 1988 and 1989 caused a "revival" of comparable prices, and new distortions, and a tendency toward centralization of price control appeared. Although fairly giant strides were made during 1990 and 1991 in the structural overhaul of prices, structural conflicts in prices remained prominent as a result of too many accumulated problems. The concentration of energies on solving a number of conspicuous irrational comparable price relationships during the relatively relaxed atmosphere in 1992 following two consecutive years of fairly low price rises was a very natural choice. The goal of price reform in 1992 was a further overhaul of the price structure for a gradual straightening out of how returns are distributed to reduce the government subsidy burden. In addition to the already announced rise in grain and cotton procurement prices and centralized grain sale prices, adjustment of energy, raw and processed material, and transportation and communications prices is also being considered, as well as increases in the percentage of these products that producers can sell themselves. The appearance of these readjustment measures will spur a rise in retail prices. In view of the items on which local governments at all levels have adjusted prices or removed restraints to reduce their increasingly serious financial subsidy burdens, the degree of rise in the retail price level is certain to be rather large.

D. Evidences of a new round of mindless construction, and duplicatory construction have appeared once again.

This will have a substantial effect on the current price level. After more than two years of improving the economic environment and rectifying the economic order, all jurisdictions have suffered the pain of "belt tightening." With the announcement of an end to improving the economic environment and rectifying the economic order, every area and sector is stretching its legs and straightening its body, and herein lies the prospect of a new round of economic overheating. A major speech that Comrade Deng Xiaoping made during a visit to south China, and the spirit of a Politburo meeting will stimulate people to increase their zeal for economic construction. With relaxation of macroeconomic regulation and control, the impact of an expansion of local government investment will very likely create a new round of investment inflation. Every jurisdiction desires and must reduce price subsidies as well as raise prices or remove restraints on prices; thus, local price increases may become the dominant theme in price rises during 1992.

E. One important reason that price levels have tended to be steady during the past two years was the hoped for stability or negative growth of inflation in principal economic entities, which assured basic stability in consumer goods markets, and gave rise to a situation in which supply was greater than demand. However, as the principal entities in the economy gradually feel the effects of steady warming of the economy, corresponding changes will occur in their outlook and behavior. This may have a corresponding impact on markets and prices. For this reason, we cannot make overly optimistic judgments based solely on the present stability.

### III. Calculation of the Current Price Level and Forecasts

We have made some preliminary predictions based on the foregoing analysis, namely that prices will be markedly higher during 1992 than they were in 1991, but they will not reach double digit proportions. They may surpass the 6 percent control goal, however. During the first quarter, prices rose 5 percent, and approximately 6 percent during the second quarter for an approximate 5.5 percent rise during the first half of the year. During the second half of the year, prices will tend to rise more rapidly, possibly reaching around 8 percent. Specifics are as follows:

A. During the first and second quarters of 1991, the state readjusted coal, petroleum, processed steel, pig iron, and railroad freight prices and the retail sale price of grain and edible oil. Because of a less than full rebound in demand, these price adjustments have not been fully reflected on the price level, but as demand rebounds, the delayed effect of these price adjustments may considerably influence the price level in 1992, particularly during the first and second quarters. Preliminary calculations suggest that they may cause a 1 to 2 percentage point increase in the 1992 retail price index, and a 2 to 3 percentage point increase during the first and second quarters.

B. The fixed grain procurement price and the uniform sale price of grain began to rise as of 1 April 1992. With the institution of a single procurement and sale price for grain, once the price of the individual grain ration rises, prices of products made from grain and associated products will also rise correspondingly. Calculations show that if only the effect of the rise in the fixed grain procurement price is considered, the retail price index for the year will rise 0.33 percentage points. If the effect of the single uniform grain sale price is taken into consideration, the retail grain price for the year will rise 0.81 percentage points. If the rise in prices of products made from grain and associated products following rise in the single uniform grain sale price, as well as the effect on enterprise costs resulting from wage increases for staff members and workers, are taken into consideration, the overall effect on the retail price index for the year will be an approximately 1.4 percentage point rise. Additionally, adjustment of the basic product plan prices of transportation, energy, and electric power, which are priced much too low, will cause a 2 to 3 percentage point rise in the 1992 price level.

C. In the area of macroeconomic regulation and control, the state will further increase indirect regulation and control during 1992. Some decision making authority and some regulation and control authority will be further delegated to local governments. With this delegation of decision making authority and regulation and control authority, local governments will naturally choose to free themselves from increasingly severe fiscal difficulties by adjusting and removing restrictions on numerous commodity prices that local governments control. Thus, the pent up inflationary pressure that has built up over the years may be released fairly quickly. The 0.5 percentage point rise in local prices set forth in state plans for 1992 may well surpass that amount.

D. To respond to the need to move enterprises gradually toward the market and change enterprises' operating mechanisms, the state has decided on appropriate decreases in command-style plans in the production and circulation realms, increasing use of guidance-style plans and market regulation. From the central government to the local government levels, a complete inventory must be made of the range of command-style plans in being today, all possible being done to reduce all that can be reduced. During 1992, the state intends to cut back command-style plans for processed steel, pig iron, sulfuric acid, sodium carbonate, caustic soda, tires, lumber, and cement. Furthermore, since January 1992, a change has occurred in the previous situation of steady to declining prices in means of production markets, a trend toward an across-the-board rebound has taken place. As industrial production gradually warms, the pull of demand on means of production markets will become increasingly marked, and the reduction in state command-style plans may accelerate a rise in prices of the means of production.

To summarize the foregoing factors, we believe that the economy will gradually warm up during 1992, but that it

will not overheat. The pull that demand exerts on prices will be stronger than in 1991, but it will not give rise to serious inflation. National and local government planned adjustment and removal of restrictions on some commodity prices will provide the main impetus for price rises during 1992.

### Gao Shangquan Affirms Market-Oriented Reforms

HK1009023792 Beijing CHINA DAILY in English  
10 Sep 92 p 4

[By Gao Shangquan, vice minister of the State Restructuring of the Economic System Commission: "Market-Oriented Reforms Can Work in Nation's System"]

[Text] For years there has been a debate over whether a socialist country could practise a market economy.

But after 13 years of reforms and encouragement from such eminent leaders as Deng Xiaoping, a consensus is emerging among experts and scholars that economic change in the form of installation of a market economy is not only possible in China but also inevitable and imperative.

In China, a market economic system can serve as a foundation for economic operations and resource allocation.

As early as 1979, Deng Xiaoping said it was wrong to assert that a market economy was only practised in a capitalist society. A socialist system can also develop market mechanisms, he said.

During his tour of South China early this year, Deng said planning and markets are not demarcations dividing socialism and capitalism. They are merely economic means to achieve a goal.

A command economy is not equivalent to socialism, because capitalist countries also have plans; by the same token, a market economy is not synonymous with capitalism, because socialist nations also have markets.

A market economy is the inexorable outcome of a "commodity economy" in which labour and goods are allocated by demand rather than political fiat.

In fact, the market system originated from feudalism. China first developed its markets in ancient times. Even the Chinese word for city—chengshi—is a combination of cheng, which means castle, and shi, which means market.

Since 1978, the number of China's cities has risen from 192 to 488, owing much to the development of commodity production and expansion of markets.

Theories on commodities and markets have undergone a tortuous development in China. Not so long ago, "commodity economy" was labelled capitalistic and its advocates were criticized.

The fate of a "market economy" in China was undecided until 1984, when the Central Party Committee adopted a resolution declaring that a socialist economy could be a "planned commodity economy."

This theoretical breakthrough expanded on the Marxist doctrines of political economy and paved the way for further economic restructuring.

History shows that market-oriented reforms are nearly irreversible.

Wherever local markets play a decisive role, the economy enjoys a faster development; wherever compulsory economic plans rule, local development remains sluggish.

After 13 years of reforms, the share of official compulsory plans in the domestic economy has dropped to 16.2 percent.

The government now fixes prices on less than 30 percent of goods and controls the circulation of only 19 categories of commodities, down from 256 in the past. Conditions have become mature for policy makers to introduce the concepts of a market economy.

The notion of developing a market economy does not mean the idea of a planned commodity economy should be rejected. Rather, the former can be seen as logical progression from the latter.

The two share many principles in common: both have to respect the laws of exchanges at equal values; of fixing the relationship between the government and enterprises and relationships among enterprises with contracts and other economic means rather than through administrative measures; of fair competition; and of price discovery and fixing.

Nevertheless, economic activities will be based on market operations from now on. This may eliminate some people's misunderstanding of the two phrases: "planned commodity economy" and "planned economy of commodities."

As the world economy becomes increasingly internationalized and integrative, China, if it adhered to the traditional centralized command economy, would be denied the right to take part in the international division of labour and competition.

A shift to a market economy, on the other hand, will enable the country to be better prepared to adapt to changes in the international economic circles and, in the short run, facilitate its efforts to rejoin the General Agreement on Tariffs and Trade.

To develop a market-oriented economy is not equivalent to privatization.

Although both capitalist and socialist countries share common basic practices in their market economies, a

capitalist market economy is associated with private ownership whereas a socialist market economy is based on public ownership.

The market economy would be socialist in nature if public ownership made up the lion's share in the national economy, if distribution were carried out according to one's work, if common prosperity were achieved for all citizens and if the government were to remain under the leadership of the Communist Party.

Capitalist countries also have publicly-owned enterprises. A World Bank brochure shows that among the 500 biggest firms in the world other than in the United States, 71, or 14 percent, are under public ownership. These firms enjoy 19 percent of the total firms' sales revenue and 21 percent of total assets and hire 21.4 percent of the employees.

A socialist market economy is not incompatible with central planning. Planning has made it possible for China's national economy to develop in a co-ordinated way, because, according to Marxist theory, it has overcome the fundamental contradiction of a capitalist society—between socialized, mass production and private ownership of means of production.

So long as plans are worked out rationally in light of the law of values and the supply and demand on the market, the possibility of a socialist market economy could be turned into a reality.

It is important for the government to switch its direct, microscopic control of enterprises to indirect, macro regulation, such as maintaining an overall balance between supply and demand, regulating product mix, and formulating distribution and regional development policies.

To regulate economic development, the government should resort to adjusting interest, tax and foreign exchange rates. It can also apply necessary legal and administrative measures.

It is the government's responsibility to improve planning, coordination of various sectors, supervision and services in developing a market economy.

#### **Economist Tong Dalin Calls for Market Economy**

*HK0809150592 Beijing JINGJI CANKAO BAO  
in Chinese 16 Aug 92 p 4*

["Selected New Views" column: "Article Carried in XINXI RIBAO, 18 July 1992: Tong Dalin, Vice Chairman of Society for Research on Restructuring the Economic System of China, Calls for Marching Toward 'Modern Market Economy'"]

[Text] The global strategy of China's economy is to become a world-class economic and trade power. Therefore, it is necessary to struggle for restoration of China's status of a signatory the GATT as soon as possible, to link China's market with the world's market, and to



enable China's market economy to become a component part of the world's market economy. This is the "modern market economy" facing the world.

Along with the rapid development of science, technology, and management, the commodity economy has witnessed some new features, which are characterized by increasing involvement in information, finance, knowledge, and global activities.

To move faster toward a "modern market economy" is to move faster from the planned economy characterized by centralization to a modern market economy facing the big market in the world.

To move faster toward a "modern market economy," the urgent task now is to carry out enterprise reform, separate the government from enterprises, and let enterprises have decisionmaking power. Up to now, even the Shoudu Iron and Steel Corporation, which is an extraordinary large enterprise, does not have decisionmaking power concerning foreign trade, the right to accommodate capital, and the right to make investments and set up projects corresponding to the enterprise's strength, not to mention other enterprises! How can enterprises have vitality when they lack decisionmaking power?

Macroeconomic regulation and control over a modern market economy is no longer the matter of a single country, but an international and global matter. A major political storm and disturbance in the world will sooner or later affect economies in many countries.

Practice proves that economic coordination as a method will replace some portion of direct government intervention. China will expedite reform and opening up, and that means it will quicken its pace toward a "modern market economy."

### Market Analyst Predicts Prices To Rise in 1993

*HK1009044192 Beijing CHINA DAILY in English  
10 Sep 92 p 2*

[By staff reporter Zhang Yu'an: "Increase in Retail Prices Predicted"]

[Text] Domestic retail sales prices are expected to remain steady for the rest of the year but are likely to increase in 1993, a local market analyst told CHINA DAILY yesterday.

Zhang Xuhong, an analyst with the China Market Development Institute said this is due to the sharp price rises of production materials, which will cause a rise in production costs. This, in turn, is expected to lead to an increase in the price of consumer goods.

Due to high industrial growth and soaring State investment in the fixed assets sector from January to July this year, domestic demand for production materials grew rapidly and their prices look set to enter a period of accelerated growth.

In the first half of this year, domestic production material prices increased by 6.4 percent over the same period for last year. When analyzed, average growth rate in the first quarter was 4.5 percent but this figure jumped to 8 percent in June, the highest monthly growth rate in two years, Zhang said.

He added that, apart from the buoyant demand for means of production, the following factors also caused a dramatic rise in production costs:

The State's substantial increase of the prices of coal, electricity, crude oil, grain, rolled steel, some types of heavy-duty trucks and civil use explosives.

An increase in the price of production-related materials in the international market and the rise of foreign currency against renminbi yuan on the domestic foreign exchange swapping market.

Railway department can only satisfy 40 percent of daily freight transport demand.

Producers of production materials stockpiling goods, causing a run on goods, which causes further price rises.

Zhang said dramatic production price rises will push production costs up and in the near future will lead to an increase in retail sale prices. Zhang noted that price rises were already higher than last year. In the January-July period this year retail sales throughout the country were up by 4.8 percent over last year.

But Zhang said, present price rises are still "comparably stable and within the State's planned 6 percent rise quota for this year." However, residents in 35 large and medium-sized cities may have felt the pinch, as the cost of living grew by 7.8 percent during the January-July period. This is much higher than the country's average 4.8 percent growth rate.

### Economist Urges Investment in Hinterland

*HK0109081192 Hong Kong CHING CHI TAO PAO  
in Chinese No 33, 24 Aug 92 pp 9-11*

[From "Talks With Chinese Economists" column by staff reporters Hsieh Ming-Kan (6200 2494 1626) and Yao Kan-nan (1202 6373 0589): "Emancipation of the Mind Has Yet To Be Deepened Further"—Interview With Professor Dong Fureng, Famous Economist"]

[Text] Dong Fureng [5516 6534 4356], vice chairman of the finance and economic commission of the Standing Committee of the National People's Congress and noted economist, is also an old friend of CHING CHI TAO PAO. He is broad-minded, articulate, and sincere. He said to these reporters: Since Deng Xiaoping gave his southern tour talks, the theoretical circle has come alive again, daring to discuss issues which in the past were considered either dangerous or taboo. Nonetheless, people are still rather doubtful in some ways, and their minds not lively enough. Efforts have yet to be made to

continue deepening the emancipation of the mind and to relate it to the entire process of reform and opening up from beginning to end.

**As Long as There Is No Labelling, There Is Nothing That Cannot Be Discussed**

Mr. Dong Fureng said: Looking at the current situation, it is not bad, as Deng Xiaoping's talks have excited the economic, theoretical, and other circles. Due to the criticisms of "spiritual pollution" and "bourgeois liberalization" in the past—some of which were correct while others were wrong—and because certain measures related to reform and opening up in the economic field also became targets of criticism, people continue to harbor reservations to this day. In the future, as reform and opening up intensify, more new problems will crop up, and people will have to deepen their understanding. It is not possible for everyone to have the same understanding of Deng Xiaoping's important talks. While the depth of understanding may be the same, arguments will arise once concrete problems are encountered—this is a normal phenomenon. As long as everyone discusses the issues in a calm manner and does not resort to labelling at every turn, there is nothing that cannot be discussed.

He cited an example: Different views exist regarding the questions of whether labor is a commodity and whether mines, land, and forests are commodities. If these are not considered commodities, then a large number of factors of production will be ruled out as commodities, and many restrictions will be encountered in developing a market economy. To this day, there is no unified understanding of this question.

Mr. Dong maintained that all kinds of ideologies may be discussed and different views can be allowed to exist under the premise of upholding the Four Cardinal Principles and the policy of reform and opening up.

**Appropriate Preferential Treatment Should Be Granted to the Hinterlands and the North**

Not long ago, Dong Fureng visited Wuhan, Tianjin, and other places to conduct investigations and studies. He believed that the coastal regions are presently developing fairly rapidly because they have adopted many measures to further reform and opening up and have attracted vast amount of foreign and domestic capital. In comparison, the hinterlands and the north have slowed down by a beat in the course of reform and opening up over the past 13 years. If the opportunity is not seized and forceful measures are not adopted, then the gap between the coastal regions and the hinterlands and between the south and the north will widen even more. This is extremely detrimental to the development of the entire national economy. We should take note of the continuing flow of limited resources (including capital and manpower) from the hinterlands to the coastal regions, and from the north to the south. This year, the number of people at Wuhan University who applied for passes to the special economic zones was more than 800, proof of the zeal to go south. Yet, Wuhan is an important city

along the Chang Jiang delta, its economic might and geographical location being quite influential along central and inland China. The development of Wuhan's economy will be very significant, because it can spur on development in the Chang Jiang delta.

What is to be done? Mr. Dong has a strong sense of urgency on this issue. He called for an appropriate readjustment of the state policy by granting preferential treatment to the hinterlands and the north so that they too can share the same treatment granted to the coastal regions and the south.

Speaking on the stock markets, Dong Fureng maintained that it is correct to open stock markets first in Shanghai and Shenzhen. They should not be opened everywhere all at the same time, because this would be detrimental to attempts to steer the stock markets onto the right track. But it is extremely necessary to open stock markets in Tianjin and Wuhan as soon as possible. Tianjin can turn into the stock market center of northern and even northeastern China, while Wuhan can spur on the central China region. At present, the two cities are fairly ripe for this change, and the introduction of shares trading will play an important role in promoting the rational allocation of capital in these regions.

**Overseas Investors Should Be More Foresighted**

Not long ago, Dong Fureng received a delegation from the Republic of Korea's Hanyang University and gave some very positive views on investments by foreign businessmen in the Chinese mainland:

Aside from continuing to invest in the coastal regions of the Chinese mainland, overseas investors may give more consideration to developing and investing in the hinterland. The reasons are: The hinterland is rich in untapped resources, boasts lower property and housing costs, and the quality of its workers is not inferior to that found in the coastal cities. Some of the advantages of the coastal regions—such as cheap labor and low property costs—are gradually disappearing, meaning labor intensive enterprises will have to move inland eventually. Rather than move their investments later, overseas investors may take the first step by moving inland now.

Overseas investors should not only focus on promoting labor intensive industries but should give more consideration to investments in new- and high-tech industries. Because the products of new- and high-tech industries are higher quality, they are more competitive in the international market. Foresighted investors should take note of China's need to develop new- and high- technology, and, at the same time, take advantage of China's edge in science and technology to develop new products. They will then be able to make some accomplishments in opening up the international market.

Overseas investors should not focus entirely on operating small enterprises; they should give more attention to investing in large enterprises. Due to the restrictions of low capital, small enterprises often only consider

short-term profits, not long-term development. In the early period of investments, this tendency is inevitable. As China expands its opening up even further at the moment, aside from investing in small- and medium-sized enterprises, overseas investors should consider establishing some large-scale enterprises which are capable of taking advantage of economies of scale, thus becoming more competitive in the international market.

Mr. Dong said: After listening to what he had to say, the Hanyang University delegation expressed interest in his views, adding that it seldom hears such ideas in other places. After Mr. Dong repeated them to us, we also felt that they indeed demonstrated great foresight.

Finally, Mr. Dong said: "One can become a wise entrepreneur by focusing one's vision farther ahead."

### **On Relations Between Control Departments, Enterprises**

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[Article by Qin Hai (4440 3189): "Relationships and Issues Between Macroeconomic Regulation and Control Departments and Enterprises"]

[Text] Our taskforce conducted its second fact-finding study on macroeconomic regulation and control in the five Fujian cities of Fuzhou, Nanping, Sanming, Yong'an, and Xiamen from 26 November to 14 December 1991. The abundance of material that we obtained not only shows the existing macroeconomic regulation and control problems, but also illustrates the current considerable difficulties that still exist in rationalizing macroeconomic regulation and control relationships.

#### **I. The Relationship Between the Planning Sector and Enterprises**

As the key macroeconomic regulation and control sector, the State Planning Commission has an impact on the economic operations of enterprises (referring to state-owned enterprises, and similarly hereinafter) that is profound and extensive, and which is expressed mainly as follows: 1. It intervenes directly in enterprise production by assigning relevant directive-plan targets, the completion of which it uses as the criteria for evaluating enterprise achievements. 2. It influences the departments responsible for enterprise work by issuing overall development plans, which have an indirect impact on enterprise actions. But since we began to reform and open up, since 1984 in particular, directive-plan targets have been much less of a restraining force on enterprises. Statistics show that directive-plan output value already accounts for less than 10 percent of our industrial output value, so that direct control over ordinary enterprises by the State Planning Commission has largely evaporated.

A. Directive planning conflicts with the "double guarantee" policy. The current relationship between planning departments at all levels and enterprises is reflected

mainly in the two areas of directive-plan shares and the "double guarantee" policy. As to directive-plan shares, most enterprises that are held responsible for directive plans are ones that are affiliated with (or subordinate to) ministries, or are on provincial planning agendas. Based on overall national economic balance and the needs of the national economy and the people's livelihood, the State Planning Commission classifies and breaks down the enterprises that are held responsible for directive plans, assigning some directive-plan targets directly to subordinate enterprises, and breaking down others to provincial or planning-agenda cities, which are in turn broken down by provinces and cities to their respective planning-agenda enterprises. Generally speaking, administrative departments responsible for enterprise work practice the "double guarantee" policy toward directive-plan enterprises, i.e., enterprises guarantee the completion of directive plans, while the state guarantees supplies of key production elements, such as raw materials and funding. But in recent years, as directive-plan targets have been cut back too sharply and investment-plan targets have certainly lost their continuity, the enterprise sector has generally reported that "the tightening or easing of directive plans has become market-oriented, in that directive plans are cut back when there are market shortages, and increased when market supplies ease." In particular, directive plans are cut back correspondingly when market restraints are stronger, which results in enterprises practicing "shortage planning" for key production elements to guarantee the completion of their directive-plan duties. This means that "only one end" of the "double guarantee" is really effective, in that enterprises guarantee the completion of directive plans, while their supplies of key production elements are not guaranteed. This leaves enterprises in a state similar to that of "even the cleverest housewife not being able to cook a meal without rice." On the other hand, when markets slump, governments at all levels practice a policy of "cutting back production and cutting down inventories," which exacerbates enterprise difficulties. This has affected the importance of directive plans, while putting enterprises that are assigned directive-plan targets in the double-bind of trying to increase their directive-plan shares while breaking free from directive-plan restraints.

B. Market share and product prices affect enterprise actions. Market share refers to an enterprise's share of its industry's market sales, and is the determining factor in enterprise size and market sales expansion. But as some of China's economic operations are still subject to directive planning, the immediate significance of market share as far as enterprises are concerned is limited to independent sales of beyond-plan products, so is linked directly to product prices.

In the enterprise contract system process, all enterprises enjoy a given share of independent market sales authority. But while beyond-plan product prices are market-negotiated, this share certainly does not increase annually, i.e. it does not go up based on enterprise completion of directive plans. In directive-plan output

share, enterprises cannot regulate the price differences between key production elements, such as raw materials, and final products, so are left with trying to increase their market share to supplement these price differences, i.e. with "making up internal losses from the outside." In addition, the state stipulation that quality must be better to raise product prices is not enforced strictly, and local governments impose various taxes on product exports, such as export shipping fees and price reform overall planning funds, which become special funds for industrial adjustment and price reform, all of which makes enterprises shun and act even more contrary to directive plans. Such conditions spur enterprises to more short-sighted actions, which causes a loss of long-range growth stamina.

## II. The Relationship Between State Revenue and Enterprises

The relationship between state revenue and enterprises is that state revenue participates in the enterprise distribution process on behalf of the state. The relationship between state revenue and enterprises is now expressed mainly by control of circulating funds, examination and approval of enterprise independent fundraising, enterprise tax reduction or exemption, the enterprise contract system and the local guaranteed revenue system, and the separation of taxes from profits.

A. Circulating fund control affects state revenue turnover. Since 1984, China's enterprise circulating fund control has undergone a fundamental change in which, based on set circulating fund quotas, it is stipulated that enterprises must raise 30 percent of their own funds, with enterprise circulating fund quotas being controlled by state revenue, and the above-quota portion being controlled by banks, which turns state revenue appropriations into bank loans. Once circulating funds were changed from appropriations to loans, changes in output value, production capability, and market prices made it very hard for most enterprises to meet the criteria of raising 30 percent of their own funds. Even efficient enterprises are generally able to raise only about 20 percent of their circulating funds. This has brought about a large circulating fund shortage. A survey by the Sanming branch of the People's Bank of China [PBOC] of circulating funds in 15 Sanming enterprises finds that the two general sectors of state revenue and banks actually allocate only 30 percent of enterprise circulating funds, or 71.25 million yuan less than the quotas. While the relevant policy stipulates that state revenue must appropriate an additional 30 million yuan, it is unable to do so, which finally forces enterprises to incur additional bank loans. This process not only shows the conflict over enterprise circulating fund control between the two major sectors of state revenue and banks, but also turns enterprises into "scapegoats" of this conflict. From the perspective of state revenue, as the circulating fund control system has undergone this change, circulating fund shortages should be made up by banks. But as far as banks are concerned, since circulating fund quotas are controlled by state revenue, enterprise circulating fund

shortages are not necessarily circulating fund operating shortages, but rather are very likely caused by "quota shortages." The enterprises that are stuck in the middle of such squabbling "between mother-in-laws" can only consider themselves unlucky "daughter-in-laws," which either leaves them operating under capacity or affects their activities due to heavy interest burdens.

In addition, our investigation discovered that the state revenue sector has working funds, which most enterprises wish it would use to make up their circulating fund shortages. These state revenue working funds come from state revenue loans and the time-lag when state revenue funds are changed from appropriations to loans, and reflect the fund invigoration capability of the state revenue sector. While the state revenue sector at all levels now has such working funds that constitute roughly 30 percent of its extrabudgetary funds, only a very small part of them can be used to make up enterprise circulating fund shortages, because most of them are targeted for local key construction projects and development to help "backward, deficient, border, and poor" areas out of poverty.

B. Problems exist in the examination and approval process for enterprise independent fund raising. Since 1984, China's fund control system has undergone a fundamental change, in which the principle of "state revenue doing the checking and approving, the State Planning Commission setting up the projects, and the People's Construction Bank [PCB] holding the deposits" is followed to control enterprise fixed assets investments, and in which it is required that enterprises raise 60 percent of project budgets. But in the actual implementation process, the procedure of "depositing the funds before approval is given" must be followed. Moreover, local planning commissions and state revenue departments compete for these independently-raised fund deposits, so that enterprise fixed assets investment deadlines are too long, enterprises suffer from uncertainty in the capital construction examination and approval process, and technological upgrading plans supplant capital construction plans.

C. The enterprise contract system and tax reductions and exemptions affect local guaranteed revenue collections. The enterprise contract (management responsibility) system is the prevailing operating mode, which is practiced by over 85 percent of the budgeted industrial enterprises throughout China. While its positive effects were quite obvious before 1988, inflation and market changes after 1988 emphasized its negative effects. Moreover, some localities practice a guaranteed revenue system, which produces the following major conflicts with the contract system:

1. The local guaranteed revenue system follows the principle of "four sets and four guarantees," i.e., set input, output, tax categories, and retained profits, and guarantees of payments to state revenue, key product output, development funds for things, such as product and technology development, and product quality.



While this requires cooperation between enterprises and state revenue, focused on the need for enterprises to openly report their sales plans to state revenue, enterprises do not report their sales plans to state revenue because it would put them in a disadvantageous position as far as retained profits are concerned. Moreover, things, such as set input and tax categories and guarantees of output and quality, cause wrangling among all parties, which leaves the "four sets and four guarantees" with only "one set and one guarantee," i.e., set retained profits and guaranteed payments to state revenue.

2. The state revenue sector in certain localities reports that while the state's decision to revitalize large- and mid-size enterprises is correct, local administrative leaders regard their success in accomplishing this revitalization as the major criteria for evaluating their official career achievements, so set up "on-site offices" at the grass-roots level, which results in "officials talking and subordinates paying." For instance, local leaders commit acts, such as arbitrary tax reductions and exemptions and establishment of various kinds of fundraising funds. Tax reductions and exemptions actually lower both enterprise contract bases and local revenues. While such reductions and exemptions often have no rational criteria, the establishment of various fundraising funds is a way of demanding money from enterprises. The Sanming revenue department reports that it collects hundreds of various types of funds a year, which amount to almost as much as its fiscal revenue. Even though the enterprise outlay for various funds is basically equal to their gains from tax reductions and exemptions, the revenue sector grumbles about enterprise tax reductions, while enterprises complain about revenue departments setting up various funds. Actually, many of these funds are not set up by state revenue departments. In addition, the local revenue sector has a negative attitude about investing more in large- and mid-size enterprises, because once enterprises are raised in grade, they break free from local revenue tax collection jurisdiction, and become planning-agenda enterprises.

3. The separation of taxes from profits is a joint choice by both state revenue and enterprises. The separation of taxes from profits is an abbreviation for "separation of taxes from profits, with aftertax loan repayment and contracting," whose major planks are a uniform enterprise income tax rate of 33 percent, elimination of the regulatory tax system, so that all enterprises pay 1-35 percent of their aftertax profits into state revenue in 11 fixed grades with one rate per enterprise, and changing of loan repayments from pretax to aftertax, with all of the remaining profits left to enterprises by state revenue going into enterprise production development funds, and in special cases being allowed to be used for loan repayments or to supplement enterprise circulating funds. The separation of taxes from profits is a comprehensive reform to lighten enterprise tax burdens and revitalize large- and mid-size enterprises. Xiamen was the first city in China to try out "the separation of taxes from profits." Its three years of testing this system that

began in March 1988 show that all sectors, such as state revenue and enterprises, are pleased with it as follows:

a. Revenues did not basically decrease, being 1.316 billion yuan in 1987, 1.386 billion yuan in 1988, 1.104 billion yuan in 1989, and 1.03 billion yuan in 1990. State revenue increased steadily, with no (sic) decrease.

b. Bank recoupment of fixed assets loans improved. In 1987, Xiamen budgeted industrial enterprises used the pretax loan repayment method, repaying 63.01 million yuan in fixed assets loans. In 1988, they used the aftertax loan repayment method, repaying 77.2 million yuan, or 22.52 percent more than in 1987, and then 105.44 million yuan in 1989, or 36.58 percent more than in 1988.

c. Enterprise retained profits increased considerably. In 1987, Xiamen budgeted industrial enterprises retained profits of 632 yuan per worker, consisting of welfare and bonus funds of 385 yuan per worker, and production development funds of 247 yuan per worker. In 1988, these three figures were 2,764 yuan, 832 yuan, and 1,941 yuan, respectively, going up again in 1989 to 3,063 yuan, 981 yuan, and 2,082 yuan, respectively. This increase in enterprise retained profits not only eased enterprise fund shortages, enabling enterprises to make up their circulating fund shortages, but also brought about the establishment of various production reserve funds, which enhanced enterprise development stamina.

Our "separation of taxes from profits" reform experience also tells us that as it was based on reducing enterprise income taxes, eliminating regulatory taxes (including exemption from the "two funds" in some places), and really lightening enterprise burdens, it was able to ensure policy stability and continuity without a major reform of our revenue system. As it separated the collection, management, channels, and circulation of taxes from profits and effected a uniform tax burden, it brought equal competition to trigger the conversion of enterprise operating forces.

### III. The Relationship Between Banks and Enterprises

Banking and enterprise system reforms in recent years have brought the relationship between banks and enterprises much closer. But while banks have taken on the business of granting enterprises fixed assets and circulating fund loans and settling their accounts, conflicts still exist between banks and enterprises. These conflicts are mainly high interest rates causing a shortage of enterprise circulating fund loans, enterprise profits being diverted to bank interest, enterprise credit-rating assessments being irrational, and banks taking an approach to enterprise loans of "preference for the wealthy over the poor," which have led to unusually widespread grumbling by enterprises about banks.

A. High interest rates affect enterprise credit. While Chinese banks have lowered interest rates twice since 1990 to help enterprises out of their economic operating difficulties due to the market slump—inertia due to the

tight monetary policy, the commercialization of banks, and loan competition among banks have actually kept loan interest rates too high, which has exacerbated the uncertainty of enterprise credit. This tight monetary policy inertia is seen mainly in the shift of monetary policy from tight to moderate or expansionary, in which changes in policy dynamics must be smooth, while a certain time-lag exists in the change of interest rates from high to low, which objectively keeps them from taking effect all at once. While the commercialization of banks has encouraged banks to pursue profits by choosing loan targets based on enterprise economic efficiency, this has led to bank credit actions that businessmen call "preference for the wealthy over the poor," which has resulted in an abundance of loans for efficient enterprises but a shortage of them for inefficient ones. Loan competition among banks is expressed as "the Industrial and Commercial Bank of China [ICBOC] expanding into the rural areas, the Agricultural Bank [AB] breaking into the cities, the PCB funding demolition, and the Central Bank operating everywhere," with the special bank system of "mainly one business with some overlapping" having actually been replaced by "full-function banking." While such competition theoretically should result in lower interest rates, bank "preference for the wealthy over the poor" and provision of credit based on efficiency have caused interest rates to rise instead. In addition, profit competition among banks has also added fuel to the flames of rising interest rates. Providing loans based on the efficiency differences among enterprises, between enterprises and banks, and among banks, i.e., the "three-in-one" efficiency gap, is bound to push interest rates up and make enterprise interest burdens heavier, even to the point of causing a deterioration in enterprise fund operating efficiency.

B. Enterprise profits are diverted to bank interest. Xiamen statistics show that state-owned and -budgeted industrial enterprises pay banks loan interest that is almost equal to the sum of their realized profits. For instance, in 1990, these enterprises paid banks interest of 83.09 million yuan, while earning profits of only 85.19 million, for a ratio of 0.97:1. This problem is even more severe in commercial enterprises. In 1989, state-owned industrial enterprises in Sanming, Fujian realized profits of only 7.4 million yuan, while paying banks interest as high as 13.2 million yuan, so that their profits did not even equal their interest payments. The major reasons for this erosion of profits by interest are the shortage of enterprise independent funds and too high interest rates. This shortage of enterprise independent funds is concentrated mostly in areas, such as circulating funds, technological upgrading funds, triangular debt, finished product overstocking, and increased nonbusiness-related expenses. In 1990, Xiamen budgeted industrial enterprises had an average of only 11.5 percent of their own independent circulating funds (including state revenue appropriations), with the other 88.5 percent coming from bank loans, and technological upgrading above-scale loans reaching 117 percent. Moreover, their non-business-related expenses (mostly items, such as

employee unemployment insurance funds and pensioner wages and welfare benefits) accounted for one-third of their realized profits in 1990 and 30 percent in 1991. When arranging these loans, as banks adopt loan clearance forms of either "package deals" or one-time loans, while not counting time and space surpluses or deficiencies in the fund turnover process, this makes it possible for them to collect compound interest on above-scale loans, add interest to deferred loans, and offer "special loans." At present, interest rates are 9 percent for technological upgrading loans, as high as 24 percent for "special loans," and with no uniform criteria for circulating fund loans. As many special banks engage in sharp "bank account establishment" and "loan" competition, enterprises "open accounts at" and "make loans from" more than one bank, which brings increasing chaos to the fund control relations between the ICBOC and industrial and commercial enterprises, and results in enterprise profits being taken away as interest by a number of financial institutions.

This diversion of profits to interest has brought out a problem demanding strict attention, i.e., that enterprise fund-profit margins being lower than interest rates and bank fund-profit margins dampens the initiative of the major public wealth generators (enterprises).

C. Enterprise credit-rating assessments are irrational. Enterprise credit-rating assessments are another factor in the current deterioration of relations between Chinese banks and enterprises. While the competition among banks for "accounts" and "loans" offers enterprises the option of opening accounts at and making loans from more than one bank, enterprises are still dependent for loans on credit-rating assessment restrictions. Enterprise credit ratings generally come in five grades, which are subject to bank examination and approval. Enterprises with ratings of grades one and two can enjoy loans at preferential interest rates from the examining and approving banks, while those with ratings of grade three or below have almost no right to bank loans or the right to only high-interest ones. While enterprise credit-rating assessments used to be made by the ICBOC, which convened a professional committee of accountants to conduct an overall examination and approval of enterprise assets and liabilities, so that credit ratings were more in line with actual enterprise conditions, all banks can now evaluate enterprise credit ratings based on their account balances and loans. Due to the lack of a uniform yardstick and standard, an enterprise that is given a grade-two credit rating by the ICBOC might be given a grade-one or a grade-three rating by other special banks. Faced with such credit assessment uncertainty, enterprises take certain opportunistic steps to achieve their credit-rating objectives.

In the relationship between banks and enterprises, while a good credit-rating assessment is equal to granting an enterprise a "loan certification," this method is certainly unable to rationalize credit relations. On the contrary, credit-rating assessments that come through many channels and do not have uniform criteria are precisely a key

factor in the credit relations chaos that exists between Chinese banks and enterprises.

D. Enterprises vouch for each other and banks shift risks. Prior to 1984, loan fund security relations were diversified, with enterprises being able to consult with their responsible administrative departments (municipal governments, planning commissions, economic commissions, and all offices and bureaus), banks, and state revenue to establish credit security relations. But since 1984, the state has stipulated that enterprise fund loans can come in only the two forms of enterprises providing security with their own assets or enterprises vouching for each other, and that state-owned enterprises can not stand security for collective enterprises. But what has actually happened is that banks have favored enterprises vouching for each other, with guarantor enterprises being appointed by banks. This is actually a kind of forced security, in the course of which the guarantor enterprise first affixes a legal-entity-credentials official seal—which makes the guarantor enterprise fully responsible for the fund loan enterprise's assets and liabilities, with even the loan amount not being filled in on some security lists, so that financial headings are very incomplete—and then the bank finally adds its official seal. This process certainly does not give the guarantor enterprise the right to either oversee, examine, or approve the loan fund enterprise's fund use, or to share the interest with the bank. If the loan fund enterprise incurs losses or its assets cannot meet its liabilities, so that it faces bankruptcy, the guarantor enterprise must pay both its interest and principle. When the guarantor and guaranteed enterprises are in the same line, assets reorganization, technological expansion, or reorganization into an enterprise group can be used to rally the forces of the guaranteed enterprise. But in actual practice, most guarantor and guaranteed enterprises are in different lines, which can turn these credit funds into "bad debts." This enterprise security problem in the fund credit process is actually a matter of shifting of bank risk. This shifting of risk not only increases enterprise business expenses (because guaranteed enterprises must pay sizeable transaction fees to find guarantor enterprises that banks will approve), but also increases the nonbusiness-related expenses of the guarantor enterprises. As banks do not take any risks, they are "ensured stable returns despite conditions," even to the point where they evaluate projects improperly, which leads to unchecked investment, duplicate investment, runaway credit, and the actual amount of credit being in violation of industrial policy.

#### IV. The Relationship Between Enterprises and Society

As "enterprises run society," Chinese enterprises are being saddled with ever-increasing social burdens. In addition to paying taxes into state revenue and interest to banks, enterprises are now burdened with all sorts of social apportionments, as well as covert apportionments under a host of names, which they cannot bear. These are mainly as follows:

A. Certain departments and social groups hide behind "enhancing control" to take turns at checking up on enterprises, comparing and assessing at each level, and using a variety of pretexts, such as holding meetings and training, to collect various fees from them in many ways.

B. The enterprise burden for social district infrastructure construction has increased. This is concentrated mostly in the areas of power, transportation, and education. While the state has been collecting power and transportation funds since 1984, localities still apportion expenses to enterprises for construction, rebuilding, and expansion in areas, such as roadbuilding, communications facilities, and gaslines. In education, in addition to collecting a 2 percent circulation tax from enterprises as an education surcharge, the education sector also requires enterprises to run schools for their employees' children. In Sanming's petrochemical factory alone, which has only 9,600 employees, there is a whole panoply of eight schools for employees' children, ranging all the way from a kindergarten to an employee college, which costs 2 million yuan in nonbusiness-related expenses a year.

C. Enterprises are burdened in areas, such as employment and pensioner welfare benefits. The major employment burden is in areas, such as finding jobs for employees' children and helping dependents make the transition from agricultural to nonagricultural jobs, for which enterprises must pay annual overall planning fees to the labor employment sector. As to the overall pensioner welfare benefit problem, this was under the jurisdiction of state revenue until 1988, when the burden was concentrated on industrial and trade enterprises, but it has since been put under the jurisdiction of the labor sector, which has expanded the burden to all industries. Moreover, the pensioner living space burden is now shared out to all enterprises, so that enterprise pensioners are ensured of equal treatment without discrimination at social welfare facilities within their designated social districts. The overall planning fee for pensioners to enterprises is now double what it was in 1988. In addition, the enterprise lifetime guarantee from "cradle to grave" for employees and their dependents not only increases enterprise burdens, but also produces many negative effects, such as increasing employee dependency and lowering employee self-improvement initiative.

The "enterprises run society" phenomenon exposes the weakness of the overall service function and the lack of development of tertiary industries in Chinese society. Some enterprises sigh that "except for not having to run crematoriums or airports, we are charged with running everything else." The right way to free ourselves from this "enterprises run society" phenomenon is to actively develop our service industries and speed up service socialization.

### **V. Recommended Ways To Rebuild the Microeconomic Foundation of Our Macroeconomic Regulation and Control**

To improve the relationship between enterprises and our three major macroeconomic regulation and control sectors of planning, state revenue, and banks, we are recommending the following remedies:

A. In the relationship between the planning sector and enterprises, unified planning departments (such as production offices and economic commissions) should practice classified guidance of enterprises, by establishing an overall industrial control concept, to include in detail the following:

1. As directive-plan targets have been gradually reduced, the directive-plan share should not be further reduced in the immediate future. Rather, we should use the impact of state industrial policy guidance targets and enterprise product alignment on the national economy and the people's livelihood as guides for choosing ways to adjust the restraints of directive plans on enterprise economic operations.

2. As to the enterprise market-regulated share, the state planning sector (including production management departments) should conduct regular follow-ups, by giving enterprises price-setting authority to control market-regulated share increases, and through changing the method of linking the market-regulated share to realized profits and taxes.

3. As the planning sector has a certain amount of decisionmaking power over the administrative departments in charge of enterprises, intervention in enterprise activities by enterprise management and administrative departments should occur through an exchange of views between overall planning departments and other sectors to establish a general industrial overall control concept.

4. The various economic policies on enterprises should be more rational and less flexible.

B. As the relationship between state revenue and enterprises is essentially one of distribution, the best plan for solving its problems will be to give consideration to both fairness and efficiency, including the following details:

1. While enterprise tax burdens should be lightened, the authority for tax remissions, such as reductions, drawbacks, and exemptions, should be further concentrated in the state revenue sector, so that actions, such as building new factories and developing new products, do not become pretexts for arbitrary tax remissions to keep enterprises from "developing at state expense."

2. We should streamline the state revenue examination and approval procedures for enterprise fundraising, while enhancing our capability to intervene in enterprise fund investment orientation.

3. We should gradually expand and popularize our pilot projects in "the separation of taxes from profits," while

changing the "enterprise guaranteed tax" result of the enterprise contract system, so that "the separation of taxes from profits" will provide enterprises with a climate of fair competition.

C. In dealing with the relationship between banks and enterprises, we should emphasize the principles of stability, dynamism, efficiency, and consistency as follows:

1. Stability refers to stabilization of interest rates to prevent large fluctuations. As our longstanding too high interest rates are detrimental to enterprise production development and a likely factor in the diversion of profits to interest, maintaining interest rates stability is the basis for dealing correctly with the relationship between banks and enterprises.

2. Dynamism refers to the process of adjusting enterprise circulating fund dynamics. The current circulating fund quotas for Chinese enterprises were set in 1984, so are no longer able to meet enterprise needs to expand their production capability bases. Adjustment of circulating fund dynamics should be based on enterprise production capability (output and output value), market prices, and enterprise fund turnover rate. The percentage of circulating funds that enterprises raise independently should also be adjusted dynamically, by increasing the percentage of circulating funds that enterprises can keep from sales income and extrabudgetary funds.

3. Efficiency is a matter of elimination through competition. As the key current task is to change the "independence and defiance" of all special banks in evaluating enterprise credit ratings, we recommend that mostly the ICBOC conduct public assessments of enterprise credit ratings through convening professional committees, so that banks can harmonize enterprise incentive and restraint forces with enterprise efficiency mechanisms.

4. Consistency means ensuring that banks intervene in enterprise activities consistently to improve China's current credit operation system. All competition among special banks for "accounts" and "loans" should be halted as quickly as possible. We should adjust our credit orientation structure, and focus on increased investment in technological improvement and S&T development. The accounts settlement relations between enterprises and special banks or among banks should adhere strictly to the Central Bank's prepared fund-payment system. In addition, when the time is ripe, we should publish a "Banking Law," which will set strict relations among all special banks, and clarify the mutual responsibilities and commitments of banks and enterprises.

D. We should gradually change the order in which "enterprises run society," which will require coordination and cooperation among all sectors. As to enterprises that are located in special social districts, we recommend the establishment of social district comprehensive socialized service funds to speed up infrastructure construction in these districts.



E. To deal with the relations between society, enterprises, and the three major sectors of overall planning, state revenue, and banks, and further revitalize enterprises, we should try out a "three funds and one introduction" policy toward enterprises. These "three funds" refer to the establishment of working funds for production, technological upgrading, and new technology development, which would be jointly raised and determined by planning, state revenue, and banks, as well as departments, such as pricing, industrial-commercial, taxation, and materials, and provided to enterprises at low interest rates to ease their fund difficulties. The "one introduction" means introducing the operating methods of the three kinds of foreign trade enterprises to state-owned ones to give them some authority in areas, such as hiring and firing, product price-setting, and wage distribution. Moreover, we should enhance our development of social districts in which state-owned enterprises are located to provide a good social climate for testing out this "three funds and one introduction" policy.

#### **'Good Path' of Shoudu Iron, Steel Reform Noted**

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4 Aug 92 p 3*

[Article by staff reporter Jiang Shijie (3068 0013 2638): "Correct Orientation, Good Path—Brief Account of Reform and Development of Shoudu Iron and Steel Corporation"]

[Text] Thirteen years ago, people in the Shoudu Iron and Steel Corporation never imagined that reform would bring about tremendous changes to the senile enterprise, rejuvenate it, and bring thriving vigor to it. In 1991, the corporation's sales reached 9.14 billion yuan, 6.3 times that in 1978; corporate taxes [li shui 0448 4451] it turned over and paid to the state amounted to 2.926 billion yuan, 6.72 times that in 1978; and its profits amounted to 2.36 billion yuan, 7.9 times that in 1978. The average annual growth rate reached 17.22 percent, and this was more than double the average growth rate of the world's 500 largest enterprises since 1953....

In the 13 years, the Shoudu Iron and Steel Corporation developed through reform by traversing a rough road, braving winds and rains, and surmounting hardships and difficulties. Today, it can begin a new journey in the course of reform and opening up.

Between March and mid-May, Shoudu Iron and Steel's 200,000 workers were released from work in turn for a three-day study course of Comrade Deng Xiaoping's important talks during his inspection tour of the south. They proudly felt that what had been done for reform and development in Shoudu Iron and Steel could find grounds in Comrade Deng Xiaoping's important talks. They cheered: "The spring of reform and opening up has come again!" What particularly inspired and excited them was that Comrade Deng Xiaoping, the general architect of China's great reform, specially came to inspect Shoudu Iron and Steel Corporation on 22 May

and affirmed that Shoudu Iron and Steel's orientation is correct and the path it took is good....

"The orientation is correct, and the path is good!" What a high comment and a great encouragement!

#### **Magic Power of the Contract System—the Congruence Between High Growth Rate and High Economic Efficiency**

At the beginning of reform and opening up, Zhou Guanwu, secretary of the steel works' party committee, used to say: "I do not believe that socialism cannot run as effectively as capitalism!" He often uttered this remark on formal occasions, because some politicians and economists in the West at that time used to link public ownership to low efficiency, socialism, and poverty. As a veteran soldier who joined the revolution in 1937, he could not endure such undeserved accusations!

Being inspired by this spirit, workers in the steel works volunteered to accept the mission of carrying out the pilot schemes for reform. Before long, they created a unique contract system for the enterprise. Over a year after that, in August 1982, the 12th party congress set forth the grand target of quadrupling the GNP by the end of this century. On 9 September, the Shoudu Iron and Steel Corporation party committee submitted its program for quadrupling the output value in 15 years to the Beijing Municipal CPC Committee and the party central leadership. It came up with the target of increasing profits by 15 percent every year between 1983 and 1985 after it recorded an annual profit increase of 20 percent in the three previous years; increasing profits by 9 percent every year between 1986 and 1989; and by 7 percent every year between 1990 and 1995. At that time, the central leading comrades praised this program and described it as inspiring.

After 10 years passed, the development speed recorded by Shoudu Iron and Steel was much higher than the planned target. Between 1983 and 1988, its profits increased at an average annual rate of 20 percent; and in the period of economic adjustment between 1989 and 1991, its profits still increased by an average annual rate of 13.5 percent. The outputs of steel and steel products separately increased from 1.79 million tonnes and 1.177 million tonnes in 1978 to 4.91 million tonnes and 4.31 million tonnes in 1991. Its output increase was equivalent to the building of a new large-scale iron and steel complex with an annual production capacity of 3 million tonnes. The enterprise also continuously expanded its operation scale and business scope. The enterprise not only produces iron and steel, but also engages in mining, machine-building, electronics, construction, chemical industry, light industry, ship building, shipping, hotel operation, garments, farm machines, and defense industry. It has become a conglomerate that owns seven companies, runs 104 large- and medium-sized factories and mines, and employs over 200,000 workers. It is described by people as a "combined fleet."

Engels once highly appraised the huge expansion capacity of modern industry in the growing period of capitalism and said that "the swelling capacity of gas is nothing in comparison." Through reform, Shoudu Iron and Steel acquired a high growth rate and high economic efficiency as well. It proves that the expansion capacity of socialist modern industry is even greater. If most state-owned enterprises can operate as Shoudu Iron and Steel does, it is certain that socialism will outdo capitalism!

If "being based on contracts" and "being oriented to the people" constitute the "nuclear reactor" that produces the huge driving force to propel the "combined fleet's" high-speed advance, then consistently keeping a dynamic, relative, and positive balance is the magic power that enables Shoudu Iron and Steel to ensure the congruence between the high growth rate and the high economic efficiency. This is a development process people in Shoudu Iron and Steel describe in their simple language: "Water is added to the dough if it is too tough, and flour is added to the dough if it is too soft." The cycle of adding water and flour can continuously enlarge the dough, and the congruence between the high growth rate and the high economic efficiency can be realized at a more advanced level.

Here are some examples:

In the early 1980's, Shoudu Iron and Steel was short of iron ore and its blast furnaces often operated under capacity. They adopted some advanced new techniques and technologies, such as "magnetic pulleys" and "magnetic fusion," to double and redouble the output of refined ore powder, thus ensuring its self-sufficiency.

In the mid-1980's, while the steelmaking capacity was lower than the iron production and steel rolling capacities, the Number One Steel Plant with an original annual capacity of 600,000 tonnes successively adopted some major measures, such as reducing the thickness of the furnace wall, expanding the furnace shell, mixed blowing from both the top and the bottom of the furnace, and improving the production organization. This resulted in raising the steel output to 2.22 million tonnes. Then, it imported some second-hand equipment from abroad, and built Number Two Steel Plant in only 22 months. This again doubled the raw steel and steel products production capacity.

After the steel producing capacity was raised, Shoudu Iron and Steel leaders made further preparations by importing second-hand rolling equipment at low cost. The second steel wire and plate plants were built in 1987 and 1989 respectively. This increased the proportion of such products in short supply as plates, belts, and wires in the total output of steel products from 11.8 to 31.6 percent. Moreover, the structure of product variety became more reasonable.

Two years ago, as the steel producing capacity became higher, there appeared a shortage of molten iron. Last year, Shoudu Iron and Steel began to overhaul and

modernize its four blast furnaces to expand their volume. In May 1991 and May 1992, the overhaul and transformation of Furnace Number Two and Furnace Number Four were completed in only 55 days and 60 days respectively.

While iron and steel production was developing rapidly, coal, electricity, and oil supplies became strained. They mobilized the masses to lower energy consumption, recover and utilize such secondary energy as blast furnace gas, and raise funds to build their own power plants to generate electricity by means of the pressure differences in the blast furnaces. Thus, they basically ensured a sufficient energy supply.

The above facts show that Shoudu Iron and Steel always sought a positive balance in its internal production procedures and in its intermediate-term production plans. In fact, the implementation of an annual production plan also required positive balancing, because its annual production plan was arranged for achieving the target of raising its profits 20 percent. In the course of production, new imbalances appeared from time to time. They included the imbalance in production capacity; in the rate of advance; and in the supply and demand of raw materials, fuel, power, and transport facilities. In particular, the prices of raw materials and fuel became higher, power supply and transportation service were suspended from time to time. These unfavorable factors seriously affected the corporation's growth rate and efficiency targets, and forced it to make three or four major adjustments every year and to make minor adjustments almost every quarter, every month, and even every week. Each adjustment would give additional tasks to various factories and mines, and they often lacked sufficient manpower, materials, or financial resources to meet the new requirements. The imbalance factors gave rise to "gaps," which had to be filled up by various factories and mines, workshops, and work groups through their "self-balancing" mechanisms. It is not too much to say that the 200,000 workers in several thousand work posts in Shoudu Iron and Steel all conscientiously made contributions to balancing the corporation's production, operation, construction, and development at every moment. Workers in the rolling plants created the best operating techniques; workers in the steel plants created the best smelting techniques; workers operating the blowing machines tried to create the best operation curve; and locomotive engineers created the best transportation program.... Innumerable streams converge into the ocean of high efficiency; and innumerable grains of sand are heaped up into the peak of high speed.

#### **Twists and Turns in Seeking "Positive Balance"—the Contradiction Between Enterprise Development and the Overall Management System**

The "positive balance" theory and Shoudu Iron and Steel's successful practice are undoubtedly contributions to gripping the central link of economic construction and

quicken the national economy's growth rate. However, as Shoudu Iron and Steel did not have the self-management power corresponding to its ability and strength (including the power to decide investment projects, to handle foreign economic affairs and general foreign affairs, and to handle and decide financial and credit affairs), the scope of "positive balancing" was very limited. The corporation still failed to do many things it should have done better or faster....

While a large number of iron and steel production facilities in some European and American countries were idle, the second-hand equipment could be bought for transforming and improving our existing equipment and thus raising the technology to the 1980's level. This should have been a "short cut" for development, as it required less investment and short construction periods but might yield good returns. However, it was never easy for Shoudu Iron and Steel to take this "short cut."

In early 1985, to increase its steel production capacity, through repeated comparison, Shoudu Iron and Steel decided to purchase Sailan [6357 5695] Steel Works in Belgium. The 49,000 tonnes of equipment and the steel-framed plant only cost \$12.5 million. This was almost the price of scrap steel. However, Shoudu Iron and Steel had no authority to sign such a purchase contract with the foreign company, and the signed contract had no legal binding force. To conclude the transaction, the department in charge sent its personnel to Belgium and again went through the procedures of inspection, negotiation, and contract signing. Of course, Shoudu Iron and Steel had to pay the costs of their trip and bear a large amount of other expenses. There was no other way. Everything had to follow the old rules. The new contract was signed four months later. The project to dismantle and move Sailan Steel Works was postponed, so was the project of the new steel works in Shoudu Iron and Steel and its completion and operation.... Since reform began, Shoudu Iron and Steel encountered a similar situation in almost every item of its 400 imported projects, and such a situation was described as "the maid holds the key, but the hostess makes the decision."

Giving play to its advantages, using the leading industry to bring along other relevant industries, and optimizing the combination of various factors of productive forces in an ever-widening scope is the inevitable law that governs modern large industries. However, due to the management structure's irrationality, when striving to expand its operation scale and scope in light of its favorable conditions in recent years, Shoudu Iron and Steel frequently encountered obstacles caused by the blockade and monopoly of the administrative departments in charge of various industries. For example, in the spring of 1985, Shoudu Iron and Steel encountered a transportation problem when buying the second-hand equipment from the Sailan Steel Works. The relevant domestic institution offered a freight rate of \$115-120 per tonne. This meant that it would cost Shoudu Iron and Steel \$6 million to transport nearly 50,000 tonnes of

equipment from Belgium to the new site; the transportation expenses would be half the total cost. This was too expensive! If Shoudu Iron and Steel could buy an old ship and sail it empty to Belgium and then carry the equipment back, the cost would be just \$60 per tonne. In these circumstances, Shoudu Iron and Steel submitted the application for setting up "Aisiji" [1947 1835 3444] (transliteration of Shoudu Iron and Steel's English initial "SG") Shipping Company, Ltd., but this move evoked strong repercussions in society like a drop of cold water into a pot of hot oil. Some people said that Shoudu Iron and Steel did not know how it should behave. However, people in Shoudu Iron and Steel persisted in acting according to the central policy of jointly developing transportation undertakings by the state, collectives, and individuals, and argued strongly on just grounds. In the first half of 1985, they came into contact with 12 state departments on this matter, held 58 rounds of face-to-face talks and 130 rounds of telephone talks. They also sent representatives to these departments many times to explain the whole plan of running a shipping company. Their persistence moved the functionaries in those departments. With the central leaders' care and support, on 24 December 1985, "Gangcheng," the Shoudu Iron and Steel ship carried the second-hand equipment from Belgium to Qinhuangdao Port. However, the port authority did not allow the ship to enter, and the ship was forced to anchor outside the port for 50 days. It later shifted to Tianjin New Port, but the authorities concerned still forbade its entrance and unloading. If the ship was held up one more day, this would not only cause \$3,000 in losses to Shoudu Iron and Steel, but would also delay the imported equipment's installment and operation. The dispute between Shoudu Iron and Steel and the department concerned was brought to the State Council. The problem was not solved until the State Council Port Office adjudicated the case.

In the course of developing operations in other industries outside iron and steel production and mining, Shoudu Iron and Steel encountered similar problems when it began to engage in the shipping industry, and it had to undergo many setbacks and fights before it could gradually expand its operation. However, the Shoudu Iron and Steel leaders did not neglect their main task of accelerating the iron and steel industry's development while smoothly advancing along the course of business diversification. After 1984, they twice proposed that they build another large iron and steel complex with funds they raised on their own and without state investment, thus contributing to the upgrading of our country's iron and steel industry. However, due to the management structure and the people's conceptions, this plan which should have been greatly beneficial to the state and the people encountered difficulties that should not have existed.

On 13 June 1984, the Shoudu Iron and Steel party committee first submitted a plan to expand the achievements of doubling and redoubling production to the

Ministry of Metallurgical Industry and to the CPC Central Committee and the State Council through the ministry. The plan proposed building a new iron and steel production base with an annual production capacity of 3-5 million tonnes in the corporation's Qianan mining area in eastern Hebei under the premise of ensuring an annual 7.2 percent increase of the corporation's profits to be handed over to the state, requiring no additional state investment, and fulfilling the technical transformation tasks in the existing works and plants in the Beijing area. On 15 June, a central leading comrade gave an enthusiastic comment and instruction to the proposal, and wrote "concur, to be handled rapidly." The ambitious plan of Shoudu Iron and Steel was affirmed and supported by the party central leadership and the State Council, and the preparatory work for the new project was stepped up. In the summer of 1985, the Shoudu Iron and Steel party committee decided to assign 400 party members to the new base as a backbone force. Many party members applied for the transfer, and those whose applications were approved completed the procedures of transferring their original work to their successors in three days. When they set off, the scene was full of a warm and moving atmosphere as wives saw their husbands off, husbands saw their wives off, children saw their parents off, and parents saw their children off, and this was something like people seeing off soldiers who were going to the front. In autumn of that year, people in Shoudu Iron and Steel felt that things were being affected by the complicated contradictions between various departments and local authorities under the traditional management structure. They immediately wrote a new report entitled "Report About Several Issues in Implementing the Transformation and Expansion Plan." Comrade Deng Xiaoping, who constantly paid attention to Shoudu Iron and Steel's reform and development, wrote instructions regarding the report: "The leadership quality and the mass foundation in Shoudu Iron and Steel are good, so it can be taken as an experimental point for further devolving power and invigorating enterprise operation. It seems that its requirements can be satisfied. This matter can be discussed by the financial and economic leading group." However, 10 months later, when Shoudu Iron and Steel hoped that its plan for building a new production base in eastern Hebei would be officially approved, the reply they got went beyond their expectations: It still needs full evidence to show where to build the base and on what scale it should be built.... After that, the China International Engineering Consultation Corporation established expert study group for the project. However, one year, two years, three years passed. Shoudu Iron and Steel still did not receive an official reply about whether to start or stop the project!

On 16 July 1989, Shoudu Iron and Steel submitted a report to the central leading comrades and, for the second time, came up with a proposal to join hands with Shandong Province in building a large modern iron and steel complex—Qilu Iron and Steel—with an annual production capacity of 10 million tonnes in Jining,

Shandong. This was because more than one month earlier, when giving an important talk to the cadres at and above the army level in the martial law enforcement troops, Comrade Deng Xiaoping mentioned that our country would need 100-120 million tonnes of iron and steel by the end of this century. General Secretary Jiang Zemin, Premier Li Peng, and Chairman Wan Li all paid much attention to this large project. On 14 September, Shoudu Iron and Steel and Shandong Province officially submitted a joint report to the State Council, applying for official approval to build the large steel works.

As a matter of fact, the preparatory work for the project started in April that year. Not only did Shoudu Iron and Steel assign a large number of workers to make an on-the-spot survey of the construction site, to make exploring drilling in the site, and begin to design; but Shandong Province and Jining city also spared no effort to give assistance. They also entrusted or cooperated with 11 institutions, including the Ministry of Railways, the Ministry of Communications, and the State Seismological Bureau, to conduct surveys and feasibility studies on various special items. In mid-December 1989, Shoudu Iron and Steel and Shandong Province jointly held the first technical hearing in Beijing. Experts in all fields affirmed the pattern of "the little chicken laying a big egg" as Shoudu Iron and Steel would undertake the construction of such a big production base as Qilu Iron and Steel. According to the constructive opinions of the experts and scholars at the first technical hearing, Shoudu Iron and Steel began more careful and painstaking work, making over 20 major revisions of the construction program. On 16 March 1990, the second national technical hearing was held in Shoudu Iron and Steel, with 181 experts and scholars jointly signing a report to the State Council, saying: "Qilu Iron and Steel will be a great project which will win bring honor to socialism and for the Chinese nation, a great project based on self-reliance that will raise the mechanical and electrical equipment produced by our country to the world's advanced level and boost our national prestige in the world; and it will be a great event in the history of our country's economic development. The subjective and objective conditions for starting this project are all ready, and it is time to make the final decision. It is hoped that the state will give official approval to this project as soon as possible." However, the departments concerned did not agree with the experts' opinion, and the project had to be subject to reappraisal.

The new appraisal hearing began on 16 May 1990, and 18 more meetings were held. Eighteen experts were sent in two groups to make on-the-spot surveys and investigations of the construction site in Jining. Perhaps "a good thing is strewn with many setbacks." Two years have passed, but the Qilu Iron and Steel project has not been approved or begun.

Shoudu Iron and Steel's reform experience in the past 13 years shows that being shackled by highly centralized planning, financial, investment, material management,



credit management, and foreign trade management systems, the enterprises' energy and potential have not yet been fully realized or tapped. Fortunately, after Comrade Deng Xiaoping's inspection of Shoudu Iron and Steel on 22 May, the State Council, the relevant ministries and state commissions, as well as the Beijing municipal government all warmly supported Shoudu Iron and Steel's effort to mount a new effort in the aspects of reform, opening up, and development, and the corporation decided to raise its steel output to 10 million tonnes in 1994, ranking them among the 500 largest enterprises in the world by 1995, and raising steel output to 20 million tonnes by 2000. The State Council has granted Shoudu Iron and Steel the power to decide on investment projects, to handle foreign economic affairs, foreign trade affairs, and foreign general affairs, and to make credit arrangements as those international transnational corporations do; and the relevant document has been issued. What the Shoudu Iron and Steel workers cheered when studying Comrade Deng Xiaoping's important talks during his inspection tour to the south will soon be turned into reality.

Another spring of reform and opening up has come to Shoudu Iron and Steel!

**The Courageous Demeanor of the Pacesetter—  
Advancing Through the Conflicts Between the New and  
Old Systems**

"On the chessboard of our country's reform, Shoudu Iron and Steel is willing to play a role as a 'pawn on the other side of the river' which can only move ahead and cannot step backward!" Thirteen years ago, at the first meeting of cadres in the corporation after the state named it a unit to carry out pilot schemes for reform, party Secretary Zhou Guanwu made such a solemn pledge.

In those 13 years, people in Shoudu Iron and Steel lived up to the great mission of being the "pawn on the other side of the river." They created the corporation's unique contract system, which was reputed to be a "joining point" of the "two basic points" and a "switch" of the enterprise management system. The corporation also blazed a new trail for invigorating large- and medium-sized enterprises under the socialist whole-people ownership system by advancing from the stage of "being based on contracts" to the stage of "being oriented to the people." Of course, in the long journey of reform, such a "pawn on the other side of the river" that can only move ahead inevitably came into friction and conflict with the old structure of the highly centralized planned economy which obstructed the development of productive forces.

The first "conflict" occurred in 1980.

Shoudu Iron and Steel blast furnace number two was overhauled and transformed in another location and adopted 37 domestic and foreign new technology and new equipment items. To make use of the pressure of the gas discharged from the furnace's top and to reduce noise pollution, the corporation leaders planned to install a

power generating device on the furnace top. Such a device could not be produced in our country at that time, so the corporation submitted a report to the Ministry of Metallurgical Industry and the Beijing municipal government, applying for importation of the device. In January 1980, the application was approved, and was included in the municipal plan for imports and exports. Through comparison and selection, Shoudu Iron and Steel carried out technical exchanges with three Japanese manufacturers in early April, and reached an initial agreement on the price. Because Shoudu Iron and Steel did not have foreign exchange income at that time, it decided to adopt compensation trade—to pay for the imported equipment with 20,000 tonnes of surplus pig iron. However, the export of the pig iron became a tricky problem, and gave rise to a string of unexpected troubles.

In the period of over a month, Shoudu Iron and Steel's report was repeatedly examined by more than 10 departments, including the Beijing municipal government, two ministries, two state commissions, and a State Council bureau. It was strewn with signatures and seals. To explain its plan, Shoudu Iron and Steel sent 105 people to these institutions, and made several hundred telephone calls. Finally, the plan was endorsed by all of them, but none of the departments was willing to say that it could make the decision. Being anxious, Shoudu Iron and Steel again inquired about the approval procedures and learned that the compensation trade transaction had to be approved by the department in charge. In early May, Shoudu Iron and Steel submitted another application to the department in charge. In early June, the department in charge concluded its month-long consideration and examination, and endorsed the export of pig iron. Shoudu Iron and Steel immediately delivered the report to the state import-export management department, but the reply was: It needs the opinion of the state department in charge of materials on the export of the pig iron. However, when the endorsement signed by the material department was brought to them, they said that they still needed the opinion of the state department in charge of machine-building industry. So, to get the two characters of "endorsement" [tong yi 0681 5030] and a big red seal of the machine-building department, Shoudu Iron and Steel spent another month.

Everything seemed to be ready. The department in charge of import and export began to draft the reply document. At this juncture, the material management department changed its mind and did not agree to sign its endorsement. In view of this change, the reply document's drafter also changed his mind. After repeated explanation by Shoudu Iron and Steel, a deputy director expressed agreement in principle, but the document still needed a vice premier's examination and approval. Thus, another month passed. After repeated inquiries, on 17 September, the reply document was eventually sent by the import-export management department to the state planning department for examination and endorsement. Two days later, the document was shifted to the material management department. One week

passed, but no progress was made. After tracing the document's whereabouts, Shoudu Iron and Steel found that the envelop holding the document was still in the drawer of the material management department and had not been opened yet.

The envelop was opened, and a bureau director read it and said that as the director who expressed his opinion before was out of town, other directors did not know the background and were not in a position to sign the endorsement. On 3 October, the director was back in town and signed his endorsement. Shoudu Iron and Steel immediately delivered the document to the State Planning Department Iron and Steel Section. The reply was that for the sake of confidentiality, the document would be dispatched by them, and Shoudu Iron and Steel did not need to directly deliver the document....

After hearing this, the responsible people of Shoudu Iron and Steel could not say anything for a long time. On 9 October, the Shoudu Iron and Steel Foreign Economic Affairs Office wrote a report to the central leading comrades, and gave a detailed account of what had happened in the course of applying for the import of the power generating device. The conclusion of the letter said: "Since the municipal authorities approved this import project, nine months have passed, but we do not know when we can actually begin the business negotiations with the foreign exporter and when we can actually install the device. This is just a simple project, for which the municipal authorities gave its approval within its scope of authority and the enterprise could use its surplus products to compensate for the imported equipment. Since such a good project has encountered so many difficulties, what might happen to more complicated projects?..."

Two days later, a central leading comrade read the letter and made an incisive criticism: "This is indeed a startling fact.... This is a work method that may ruin the party and the state. It shows that the work method, work discipline, and work rules are exactly of great importance. It is proposed that this issue be considered and solved in a certain way, and action be first taken to solve this problem in the central departments and the various State Council ministries and commissions."

Of course, with the stern critical instruction of the central leading comrade, Shoudu Iron and Steel could quicken the speed of getting this matter handled by the departments concerned. However, some people in the capital said in their gossip that Shoudu Iron and Steel was fond of lodging complaints with the top leadership. When Zhou Guanwu heard this, he only made a wry smile and shook his head. He said: Such red tape and bureaucratic and dilatory work style were derived from the highly centralized economic structure and the unwieldy and overlapped setup of government institutions. Without substantial reform of the structure and the institutional setup, similar things will inevitably to

occur from time to time. So Shoudu Iron and Steel must be ready to struggle and must not resign itself to adversity.

The second "conflict" occurred in 1983. It was two years after the State Council approved the adoption of the profit-increase-contract system, under which enterprises were allowed to retain all the surplus profits after fulfilling the quotas for profit handover.

In January 1983, the relevant state departments and Beijing municipality bureaus jointly sent officials to hold a meeting at Shoudu Iron and Steel, and to examine the final financial report. They found that Shoudu Iron and Steel reaped 410 million yuan in profits in 1982; after handing over 286.2 million yuan to the state, the profits it kept increased 94 million yuan over the previous year. In mid-February, the department concerned pointed out: first, Shoudu Iron and Steel should not hold a large part of the additional profits that year; second, the proportion of retained profits used to develop production was too small. The Shoudu Iron and Steel leaders held: The criticism's first point was untenable, and the second point was ungrounded. So they wrote a report to the leaders of the party Central Committee and the State Council denouncing the old conceptions of "only wanting to take more eggs but not wanting to feed the hens," "only wanting to eat fish but not wanting to keep water," and "only wanting the horse to gallop and not to graze." The report pointed out: In 1981, the profit handover quota for Shoudu Iron and Steel was 270 million yuan, which was 42.5 percent higher than the total amount of the 1978 gross profits (which also marked the all-time high before 1981), before reform began. Under the premise of setting a progressive and reasonable profit handover quota, the quota was raised 6 percent in 1982. As the state's financial revenue increased markedly, more profits should be left with the enterprises and their workers. If the enterprises could only retain a small part of the additional profits, the old profit distribution method was not changed, and this was inadvisable. The dispute then continued and did not end until a central leading comrade made an adjudication.

In the course of Shoudu Iron and Steel's reform, there was a major "conflict." It occurred on 6 December 1986. Shoudu Iron and Steel suddenly received a notice from a Beijing municipality bureau, saying that since the state raised the tax rate on raw steel from 8 percent to 14 percent in 1984, Shoudu Iron and Steel had been offsetting the profits that it should turn over to the state with the amount of the additional taxes, and this was incorrect. In over two years, Shoudu Iron and Steel withheld 108.9 million yuan of profits that it should have turned over to the state. This amount must be paid within one week....

Shoudu Iron and Steel leaders immediately held an urgent meeting that night, and unanimously held that the "ultimatum" was unreasonable. First, the profit contract system was adopted earlier than the tax rate change, so it was completely reasonable to offset the profit turnover

with the tax payment. Second, such offsetting was endorsed by the department concerned. That is, even if the department now in charge changed its mind, it should also be justifiable. So they decided to continue what they did and resist the unreasonable order. They believed the party central leadership and the State Council would support and protect the reform experiment in Shoudu Iron and Steel. On 9 December, Shoudu Iron and Steel submitted an urgent complaint to the State Council. On 17 January 1987, Shoudu Iron and Steel sent its general manager, deputy general manager, and a deputy party committee secretary to attend the mediation meeting in Zhongnanhai chaired by the officials assigned by the State Council. At the meeting, the two sides "engaged in hand-to-hand fights," and the several departments involved in the mediation also held different opinions. On 25 March, while the Fifth Session of the Sixth National People's Congress opened, 25 million yuan was forcefully deducted from Shoudu Iron and Steel's account. In late May, Shoudu Iron and Steel, which was kept in the dark, eventually heard about the "solution." It was something like a knife that would take the life of Shoudu Iron and Steel, because three of the four basic factors (the base figure, the increase rate, the contract term, and the profit distribution ratio) would be changed not in the enterprise's favor!

When facing this state of events, there was only one method. Shoudu Iron and Steel could only bother Comrade Deng Xiaoping, the general architect of China's great reform. On 9 June, they submitted an urgent report to Comrade Deng Xiaoping's office they had worked on day and night. The report quoted a large quantity of data and facts to argue three points: The contract base figure adjustment will affect the development of the enterprise's productive force; the above-quota distribution ratio adjustment will dampen workers' enthusiasm; and shortening the term of the contract will adversely affect the enterprise's long-term development. At the end of the report, it earnestly said: "Shoudu Iron and Steel's reform could achieve today's situation because the central authorities gave us a good policy of progressive profit contracts, and this has entered deeply into people's minds and has won the trust of the working masses. The workers are full of confidence in the reforms. Only thus can the high enthusiasm for their creative work be kept. This is the most valuable thing. So we ardently hope that the contract terms for Shoudu Iron and Steel will not be changed."

More than one month later, Comrade Deng Xiaoping issued an instruction: All terms of the contract signed by Shoudu Iron and Steel should be kept unchanged. On 28 August, the State Council General Office particularly issued a document to the Beijing municipal government and Shoudu Iron and Steel. When the document was sent to Shoudu Iron and Steel, the "National Symposium on the Theory and Practice of the Contract System" initiated by Shoudu Iron and Steel was held in the corporation's guesthouse. At the opening session, a former responsible comrade of the State Economic Commission

announced that the State Council had decided to continue to carry out the contract system in the whole country in 1988....

In our country, reform is being carried out under the situation in which the framework of the highly centralized economic planning system has not been changed. This determines that the units that are carrying out the reform pilot schemes will inevitably encounter many obstacles and difficulties caused by the old system whenever they try to move a step forward. In the past 13 years, Shoudu Iron and Steel has come into innumerable frictions and conflicts with the old system. Does not its experience give much food for thought? Comrade Deng Xiaoping said: Reform is also the emancipation of productive forces. This is an irrefutable truth. Should not we adhere to this truth in our practice and contribute to the emancipation of productive forces?

#### **First Automobile Share-Holding Company Established**

*OW0809145092 Beijing XINHUA in English  
1342 GMT 8 Sep 92*

[Text] Changsha, September 8 (XINHUA)—The Shengxiang Automobile Share-Holding Company, the first in China's automobile trade, announced its establishment here today.

This stock venture is formerly the Hunan-Shanghai Automobile Sales Company which was formed by the Shanghai Automobile Sales Company and Hunan Provincial Automobile Trading Company in 1988.

In the past four years, the company realized 200 million yuan in business volume and 25.3 million yuan in pre-tax profits.

The newly established company will engage in selling cars and their parts, repairing services and feedback of information.

## **PROVINCIAL**

#### **Fujian Bids To Attract Students Studying Overseas**

*OW0709142592 Beijing XINHUA in English  
1359 GMT 7 Sep 92*

[Text] Fuzhou, September 7 (XINHUA)—Fujian Province in southeast China has decided to adopt a series of preferential policies to attract more Chinese students studying abroad to the province.

Jia Qinglin, governor of the province, said, at a recent forum of returned overseas students held in the provincial capital of Fuzhou, that returned overseas students can enjoy preferential treatment in the arrangement of work, the assessment of the professional titles, wages, working conditions, housing, and the transfers of family members in the province. Big awards will be given to those who have made great contributions.

From 1978 to 1991, various departments of Fujian sent a total of 1,664 people to study abroad. Now more than half of the figure have finished their studies abroad and returned to Fujian. These people are playing an important role at their work posts.

At the forum, the governor stressed the urgency of wooing more Chinese students studying abroad to the province. He said that to speed up the pace of reform and the opening drive and to make the province's gross domestic product eight times the present figure by the end of this century, his province should foster talents of various kinds to suit the demands of the province's reform and the opening drive and economic construction.

He urged local departments to continue to do a good job in sending more Chinese students overseas, making it an important channel for the training of more senior talents.

Departments at various levels should strictly implement related regulations of the state and adopt preferential policies to attract more Chinese overseas students to Fujian. On the other hand, an open policy must be taken towards the introduction of talents, the governor added.

#### **Xiong Qingchuan on Enterprise Operating Mechanisms**

*HK0809115192 Changsha Hunan People's Radio Network in Mandarin 2300 GMT 5 Sep 92*

[Excerpts] Provincial party committee Secretary Xiong Qingchuan made a speech at the provincial conference on transforming enterprise operational mechanisms yesterday. [passage omitted]

In his speech, Xiong Qingchuan called on party committees and governments at all levels to regard study and implementation of regulations relating to transformation of enterprise operational mechanism as a major task for the present and launch a mass movement for studying, propagating, and implementing the regulations.

Xiong Qingchuan said: We must first study to gain a profound understanding of the essence of the regulations before we can succeed in implementing them.

When speaking about implementation of the regulations, Xiong Qingchuan stressed: The key to transforming enterprise operational mechanisms lies in the leading cadres changing their concepts and the government changing its functions. He called on leading cadres at all levels to further free themselves from old ideas. Only when cadres have changed their concepts, he said, can they have broader and broader prospects ahead and become more and more resourceful.

Xiong Qingchuan called on state-owned enterprises to make progress in their own development, make greater efforts to transform their operational mechanism, boldly make proper and flexible use of the rights entrusted to them by the regulations, boldly use the regulations as a

talisman to protect their rights, and boldly fight against behavior which runs counter to the regulations.

Vice Governor Chu Bo presided over yesterday's full meeting.

#### **Price of Real Estate Skyrockets in Shandong's Qingdao**

*OW0609145792 Beijing XINHUA in English 1421 GMT 6 Sep 92*

[Text] Qingdao, September 6 (XINHUA)—Last year, a man failed to sell his three-story house for 500,000 yuan (about 90,000 U.S. dollars), however, he recently refused to make the deal when a businessman from Taiwan wanted to pay 300,000 U.S. dollars.

This is not rare in today's Qingdao, a coastal, scenic city in east China's Shandong Province, as the price of real estate has kept on going up at a surprising speed in the past few months.

Local economists attribute the phenomenon to the booming economy and mushrooming of companies as 354 new firms were approved in the city in the first eight months.

In the downtown area, one mu (about 0.7 hectares) sells at two million yuan (about 360,000 U.S. dollars) to three million yuan (about 540,000 U.S. dollars).

As a result, individuals or units that have rooms to let have been increasing the rents as high as possible. In some commercial streets, the annual rent of a 30-square meter room may reach 30,000 yuan (about 5,400 U.S. dollars) to 50,000 yuan (about 9,000 U.S. dollars).

Recently, the municipal Communist Party committee joined the game by selling its office-building to some overseas investors as part of its efforts to prompt the local economy and attract more overseas funds.

Since the new building of the committee is still under construction, now the committee has to rent rooms for the time being, but it was really a hard time when its staff were going all out to look for a cheaper house.

## **FINANCE, BANKING**

#### **Guo Zhenqian Stresses Need for Monetary Stability**

*HK1009050092 Hong Kong CHING CHI TAO PAO in Chinese No 35, 7 Sep 92 p 15*

[From "China Economic News" column: "Guo Zhenqian, Deputy President of People's Bank of China, Stresses Need To Maintain Monetary Stability"]

[Text] Guo Zhenqian, deputy president of the People's Bank of China, recently stressed the need to maintain



monetary stability in order to create an excellent environment for economic development as well as opening up.

Guo Zhenqian said: Under the new situation, it is necessary to pay attention to the new changes and new problems on monetary and credit operations, and firmly control the circulation of currency and scale of credit in order to prevent inflation. He emphasized anew that control over currency and credit should not be lost or it will constrain economic growth and slow down the process of reform and opening up.

Guo Zhenqian also said: It is necessary to ensure that the state holds the power on currency circulation and regulation as well as control of total credit amount, and that the annual currency circulation plan approved by the State Council is firmly carried out.

### Putting Central, Provincial Relations in Order

92CE0612A Dalian CAIJING WENTI YANJIU  
[RESEARCH ON FINANCIAL AND ECONOMIC  
PROBLEMS] in Chinese No 7, 5 Jul 92 pp 33-37

[Article by Sun Kai (1327 7030): "Thoughts on Bringing Order to Central-Local Revenue Relations"]

[Text] As an organic link in overall financial distribution relations, the distribution relationship between central and local revenues not only determines the degree of centralization or decentralization of state revenue authority, but also affects the exercise of economic and social control functions by governments at all levels, while producing a profound impact on the force and effectiveness of macroeconomic regulation and control policy. As a given central-local revenue relationship is bound to be expressed directly in a corresponding form, it emerges as the distribution relations carrier of a revenue control system. The series of specific revenue reform steps that we have taken in the last 10 years or so, which were aimed at fully stimulating and bringing into full play the initiative and creativity of our money managers at all levels, have formed our current control system that is characterized mainly by "general guaranteed payment." What is the correct evaluation of this system, and how can we go about searching for ways to bring further order to our central-local revenue distribution relations? This article will attempt to explore these key issues that are of such current concern in financial theoretical circles.

### I

Faced with the disadvantages of our traditional revenue system, in which central revenues were too centralized and local revenues depended too passively on central ones, we began revenue system reform in 1980 aimed at devolving revenue authority to lower administrative levels and putting it under classified control, which changed our past "all eating out of one big pot" to "eating out of separate ones," shook up our old order of centralized revenue and expenditure, and was a big step

toward classified revenue. After two revisions and improvements in 1985 and 1988, we instituted particular methods for all of China's 39 provinces, municipalities, autonomous regions, and plan-list cities in six different forms, such as "guaranteed progressive revenue payments," "overall sharing," "quota payments," and "quota subsidies," which have formed a distribution order with a more direct guaranteed revenue payment system that strives to reflect and emphasize the relationship between central and local interests.

Ever since we instituted this guaranteed payment system, views about it have differed. We think that when evaluating this guaranteed revenue payment system, we should take a pragmatic approach, by analyzing the issues from a diversified economic and growth perspective, to be able to reach the right conclusions. The guaranteed revenue payment system and the enterprise contract system could be said to be a pair of twins in that, after enterprise contracting was instituted, the method was correspondingly transplanted to the revenue control system. Just as the enterprise contract system was able to adapt to a certain extent to the particular conditions of the transition between China's dual economic systems, when the operating forces within enterprises were still not perfect, markets for key elements had not yet evolved, and the government macroeconomic regulation and control system was not sound or sensitive enough, the guaranteed revenue payment system should also be seen as a feasible choice when the administrative jurisdictions of governments at all levels had not yet been set scientifically, and the tax system was being changed. In this sense, it was objectively inevitable that the guaranteed revenue payment system would exist during the phase of transition (especially in its early stage) from our traditional economic system to a planned commodity economy. Furthermore, the steps that we took to appropriately increase local government revenues and stimulate local government initiative also coincided with the basic thinking during China's initial economic reform period on "devolving authority and conceding profits." In fact, devolving authority and conceding profits was not aimed simply at enterprises, these commodity producers and managers, but also included in a broader sense the central government granting local governments more independent revenue and money management decision making power. In comparison to the system of centralized revenue and expenditure, the guaranteed payment system has enhanced the transparency of revenue distribution relations, by better combining the powers, responsibilities, and interests of money managers. While we have experienced considerable revenue difficulties per se in the last 10 years or so, the various reform steps that we have taken have provided governments with considerable and indispensable revenues with which to exercise their functions. It should be pointed out that this was inseparable from the success that we have achieved in revenue control system reform.

Obviously, the revenue system of "general guaranteed payment" is certainly not without its faults, as it certainly contains certain problems, which along with our

increasingly faster pace of reform and steady development of a commodity economy, will stand out even more to become a key conflict in revenue reform and growth. This means that there is an urgent need to bring further order to central and local revenue distribution relations. In general, at least the following three matters related to our current revenue control system need deeper study: 1. In the guaranteed payment system, central and local revenue distribution relations are certainly not determined according to commodity economy principles, nor are they based on the set standards in general practice. Rather, they are based mainly on management and administrative procedures of one-by-one negotiation and implementation between central revenue and all provinces, municipalities, autonomous regions, and plan-list cities, in which a sort of profit-distribution contract relationship is established between central and local revenues. Both theory and practice tell us clearly that as such a form of distribution that emphasizes material incentives lacks restraints, relative stability, and the necessary legal safeguards, does not have a scientific basis for determining revenue and expenditure limits when dividing up revenues, and is very subjective and arbitrary, it is unavoidably subject to disputes, such as fights over bases and percentages, and mutual bargaining. 2. Since the guaranteed payment system is characterized by rigid payment bases with more retention for more income, as overall revenues grow more and faster, the local revenue share increases while the central revenue share decreases. As central revenue might become relatively weaker, its macroeconomic regulation and control force and effectiveness inevitably decrease. If it is said that appropriately increasing local revenues to stimulate local government money-management initiative was an original intention of our revenue system reform, then the order in which local revenues have increased sharply while central revenues have not been able to keep up is widely divergent from that original intention, being an "overcorrection" of our former revenue control system. 3. Our current revenue system has the impact of making local governments often too competitive about starting up projects to develop high-price, high-profit industries, the goal of which is largely to increase local revenues. This has the adverse consequences of indirectly sparking and exacerbating imbalances in the whole national economic structure's industrial structure, trade structure, enterprise structure, and product mix, artificially abetting inter-regional economic separatism and duplicate development, affecting the rational and effective disposition of resources, and lowering macroeconomic efficiency. In addition, in the relationship between central, local, and enterprise revenues, as local revenue often represents enterprise interests, local governments that have taxation rights over enterprises often reach tacit agreements with enterprises, joining hands in their own private interests, which infringes on central revenue interests.

## II

Reform of our revenue control system is aimed at adapting it to commodity economy development, by

establishing a new effective and standardized revenue distribution order between central and local and localities at all levels, which can theoretically reflect a series of money-management principles and guiding policies, while practically harmonizing and dealing with the relations among all economic interests, and thus contribute to smooth financial activity and good circulation and growth for our whole national economy.

The so-called "effectiveness" of this new order refers to the impact of the initiative that it engenders. As all differing revenue system models produce greatly different and sometimes even diametrically opposed impacts and results, the key criteria for "effectiveness" are the ability to really stimulate the initiative and creativity of money managers at all levels, while preventing distortion and obstruction in the exercise of government functions due to interest relations. The so-called "standardization" of the new order refers to its legality and relative stability. Under this new order, not only must central-local revenue distribution relations be put onto a legal track, but they must not be changed rashly or adjusted too much to ensure that they will produce the desired results under the favorable conditions of relative stability. Based on this analysis, it can be pointed out that central-local revenue distribution relations should be harmonized and operated within a framework that conforms to the following demands: 1. It should clearly delimit and distinguish in legal form the administrative and revenue authority of governments at all levels, and regularize these revenue relations so that governments at all levels can exercise their functions within the legal framework. 2. It should establish separate central and local taxation, which provides both central and local revenue the power to impose or eliminate taxes at their respective levels, along with the authority to issue and the duty to redeem government bonds at their respective levels. 3. Governments at all levels should correspondingly draw up independent budgets, and be mainly responsible to local people's congresses. 4. Although state revenue is a single entity, so that the essential financial might and macroeconomic regulation and control capability of central revenue should be acknowledged and safeguarded, central revenue must not arbitrarily transfer local revenue funds, while local revenue departments that receive central revenue subsidies must exercise a certain amount of restraint to prevent a return to the traditional system. 5. As the revenue control system does not exist in isolation, it should be suited to the state power structure and the entire economic system, so that it has a positive impact of stabilizing the power structure and aiding the normal and effective operation of the economic system. We believe that these five demands are actually consistent with the basic principle of tax separation.

While financial theoretical circles and the actual business sector have already approved the choice of moving to tax separation and classified revenue as the way to improve central-local revenue relations, they have not yet reached a consensus on issues, such as how to handle

these relations in line with the basic principle of tax separation, or how to objectively use tax separation to develop what is useful and discard what is not in the guaranteed payment system. As it is essential to correct and improve understanding in this area, we should pay attention to the following three crucial matters:

1. We must simultaneously stimulate and bring into full play the initiative of both central and local revenues. Premised on a planned commodity economy with public ownership of the means of production, that the basic interests of central and local revenue certainly do not conflict, and that the consistency of their basic interests makes it possible to handle their relations well, there still certainly exists a given degree of interests divergency that must be dealt with conscientiously. China's revenue control system has evolved in a process that is characterized by an alternating emphasis on "unification" and "devolution." This patch-and-mend method that simply centralizes and decentralizes financial might is certainly not the basic way to bring order to central-local revenue distribution relations, because it emphasizes the interests of only one party at a time, while certainly not effectively stimulating and bringing into full play the initiative of both parties at once. Moreover, to stimulate the initiative of both central and local revenue, it is necessary to first acknowledge the dominant interests of both sides, by cutting up the "cake" rationally to eliminate the source of central-local interest conflicts, and truly achieve "graded political power, administrative authority, revenue, and budgets, with relative independence and independent balance." Stimulating the initiative of both parties certainly does not imply giving central and local revenue equal financial might, but rather means creating favorable conditions for money managers at all levels to fully perform their functions guided by the principle of "unified leadership but classified management." Moreover, neither does stimulating the initiative of both parties imply that no preferential policies will exist when cutting up the "cake." But while a certain amount of preference in distribution policy is feasible at particular times and under given circumstances, such preference should be limited and practiced only within a certain level of "tolerance."

2. When choosing ways to stimulate the initiative of both parties in the process of harmonizing central-local revenue relations, we should not only emphasize the strengthening of material incentives, but should also pay attention to developing sound restraint forces. The strengthening of material incentives was the method that we emphasized and used in our initial revenue reform period. But while this idea of injecting material incentives into the framework of our old system contributed to the establishment of profit incentive forces, it cannot be relied on to get us to our final goal of creating a new revenue system that will operate effectively. Both our traditional and current revenue control systems lack not only profit incentive forces, but also the other key element of self-restraint mechanisms. Under normal circumstances, profit incentive forces can initiate economic impulses, while self-restraint mechanisms can

limit these economic impulses as needed to suit a rational degree of normal socio-economic development to keep the profit incentive forces from becoming too hyperactive. This balancing effect is expressed in the revenue system by emphasizing the stimulation of money-management initiative, while ensuring that this initiative is released and brought into play appropriately. Profit incentive forces and self-restraint mechanisms getting out of balance (losing their symmetry), which leads to problems, such as the economic operations of dominant interests becoming overimpulsive, can be adverse to the normal operation of the financial system or even the entire economic system. Therefore, in the process of revenue control system reform, emphasizing the strengthening of profit incentive forces alone, which overemphasizes devolving authority and conceding profits while underemphasizing or even overlooking the development of restraint mechanisms, can result in new disjointedness in the relations between duties, rights, and interests, while creating distortion in the relations between incentive forces and restraint mechanisms. As our current revenue control system emphasizes the role of profit incentive forces while lacking restraint mechanisms, it is certainly essential that we introduce the balancing factor and gradually improve its functioning. In the long term, equal emphasis should be put on profit incentive forces and self-restraint mechanisms, so that they will have a joint positive impact on the effective operation of our revenue control system.

3. We must come to a clear understanding that tax separation will certainly not eliminate all of the defects that exist in our guaranteed payment system. While tax separation is certainly a more rational system and slightly better than guaranteed payment in areas, such as carving up revenue sources and reflecting the principle of the unity of financial and administrative authority, it must be pointed out that tax separation cannot be expected to solve all of the issues that exist in the guaranteed payment system. In fact, the causes of many of the problems related to our guaranteed revenue control system can be found not only in the guaranteed payment system itself, but also in the deeper underlying conflicts in our economic system. The problems of local government competition for projects and duplicate development are certainly not caused completely by revenue system factors. Both guaranteed payment and tax separation are "eating out of separate pots," being different only in form. Under China's particular conditions, "eating out of separate pots" alone, whether it be in the form of guaranteed payment or tax separation, still leaves local financial might closely linked to local economic development levels. To increase their revenues, all localities are very likely to compete with each other in developing high-price, high-profit industries. At a deeper level, the problems of duplicate development and inter-regional market blockades are caused by enterprise management not being separate from government administration, and by enterprises not yet having truly escaped from direct government control to become independent investors. Under such conditions, many production,

management, and investment activities in economic operations are certainly not motivated completely by enterprises seeking for profits, but are driven rather by local governments looking for revenues. This makes it hard to prevent the problems of duplicate development and market barriers. Thus, in addition to converting government functions and doing a good job of macro-economic regulation and control, the basic way to resolve existing regional economic problems will be to further improve operating forces within enterprises to make enterprises more market-oriented.

### III

Implementing complete tax separation would have to be premised on the following three factors: 1. The functional jurisdictions of governments at all levels would have to be set scientifically and clearly as a basis for the rational division of revenue authority. 2. The tax system would have to be more sound and stable, with more complete major and supplementary tax categories, and more rational tax burdens. 3. The socio-economic development level of all areas throughout the country would have to be more even, with at least no large gaps. While complete tax separation could obviously not yet be a realistic choice for China's revenue control system, we must still consider taking positive and safe transition steps toward such a system. It should be pointed out that planning good steps in this regard is not only a key current issue for revenue reform, but is even more so a big headache. This is because the following things must be accomplished simultaneously in the transition process. We must make sure that the changes conform to overall revenue reform trends, while ensuring that the steps that we take are feasible in actual operation. We must be sure to express all dominant interests, while taking into account the role of mutual limitations among interest relations. We must strive to standardize our revenue control system itself, while doing all we can to coordinate it with reforms in other areas. This means that the transition process will be complex and occur in stages, and also that we must base our actions on current conditions while taking a long-range view to solve problems step by step.

While administrative authority is certainly not strictly a particular component of the revenue control system itself, it affects financial authority, so that the two have close inherent links. In fact, the cause of the various conflicts between central and local revenues can often be found in the problem of unclear administrative authority. When distinguishing administrative authority, the following two points need to be made clear: 1. Central government functions cannot be objectively replaced by local governments. 2. While local government functions can be assumed by the central government, this usually comes at the cost of a certain loss of efficiency. The lesson that this teaches us is that as central administrative authority limits local administrative authority, we should set the administrative authority jurisdictions of governments at all levels from top to bottom in the proper order. The policy that we

should follow in setting administrative authority is to ensure central unified leadership, while bringing the initiative of local governments into full play. Scientific analysis and direct experience tell us that central administrative authority is mainly in areas, such as national defense, foreign affairs, national-level cultural, educational, scientific, and health work, transregional public facilities, economic development, and currency distribution, and that local government administrative authority at the county level and above is mainly in areas, such as construction of local public facilities, local-level cultural, educational, scientific, and health work, environmental protection, social security, and participation in key local economic development projects. In all of these areas, fixed assets investment in economic development is the focus of the conflict between central and local government administrative authority, which will require a lot of conscientious effort to resolve. The expenditure makeup reflects the administrative authority structure. Based on the principle of coordination between financial and administrative authority, once administrative authority is rationally delimited, it will be easy to correspondingly set the rough scope and amount of expenditures by governments at all levels.

As tax separation certainly does not set central- and local-revenue tax categories, rates, or amounts, but rather separates the central- and local-revenue tax systems into two separate ones—gradually developing and improving the tax system to improve the distribution relations between the state and enterprises is an inherent demand of the development laws of taxation per se, while being even more of a key related step to bring order to central-local revenue relations. Even though most of the Western countries that now practice tax separation collect mandatory direct taxes as their major source of revenue, this certainly does not mean that we can achieve tax separation only by establishing a tax system of mostly income taxes. A country's tax system should be suited above all to its economic and social development and structures. Through reform, we have already begun to build a tax system that is characterized by an equal dual emphasis on circulation and income taxes, and have also made reform advances in supplementary tax categories, all of which will contribute to our future establishment of parallel central and local tax systems. In the process of continuing to deepen our tax system reform, we must emphasize the strengthening of our tax revenue collection and regulation functions, while conscientiously coordinating our tax structure with the goal of a separate and graded revenue system to gradually achieve a system in which local revenues come mainly from local taxation, and central revenue can free itself from depending largely on local revenue being sent up under guard and uncompensated borrowing and appropriation.

In light of our current actual conditions, in which large gaps exist in the economic development among regions and tax separation itself makes large demands for related measures, it is certainly necessary for us to take the transitional step of setting up different separate and



graded tax systems by region. In the present stage, we should carry out tax separation pilot projects in a selective way in a few provinces and cities in our eastern and southern coastal zones where commodity economies are more developed, and then extend them to other neighboring provinces and cities after accumulating and summing up their experiences. In our central region where economic development is moderate, we should base our actions on actual conditions by continuing to practice and make efforts to improve the guaranteed payment system (by more rationally setting expenditures, and through using mostly the factor method to set guaranteed payment bases). In economically backward and minority nationality regions, central revenue should practice mostly the quota subsidy method, while introducing the right amount of contract forces to put into effect a guaranteed payment system in which quota subsidies decrease progressively. As social and economic development conditions allow, all of these regions should make the transition to a separate and graded revenue system to clarify and standardize our central-local revenue distribution relations.

#### **Theoretical Issues Surrounding Stocks, Bonds**

92CE0626A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 29,  
27 Jul 92 pp 25-26

[Article by Chin Yen (6855 4282): "Amid the Stock and Bond Fever, What Theoretical Questions Should Be Studied?"]

[Text] At the request of the economics department of the Chinese Academy of Social Sciences, the editorial departments of CHING-CHI YEN-CHIU [ECONOMIC STUDIES], TSAI MAO CHING-CHI [FINANCIAL, TRADE, AND ECONOMY], and CHUNG-KUO KUNG-YEH CHING-CHI YEN-CHIU [CHINA INDUSTRIAL ECONOMICS STUDIES] jointly sponsored a symposium on 5 June to discuss "economic theoretical questions amid the stock and bond fever." Attending the symposium were scholars from the State Commission for Restructuring the Economy, the State Planning Commission, the Economic, Technological, and Social Development Research Center of the State Council, the Research Center of the General Office of the CPC Central Committee, the Central Party School, the Chinese Academy of Social Sciences, Chinese People's University, and Beijing University. At the symposium animated discussions were carried out on the following questions:

**1. Relationship between the joint stock system and property rights reform.** Some scholars hold that there is no direct connection between the establishment of the joint stock system and the rationalization of enterprise property rights. The joint stock system, as an organizational form of enterprises, cannot create the motive to increase assets and strive for long-term development. But it can serve the purpose of separating ownership from managerial power and is the only way at present for our

country to disentangle enterprise management from government administration. In the opinion of other scholars, however, the establishment of the joint stock system is closely related to the reform of the property right system for state enterprises under China's present condition. It is for this reason that the question has become a hot issue now drawing the attention of all sectors. The current task is to institute the joint stock system to facilitate the transfer of property rights in society. Also, it is necessary to set up stockholding companies to handle state assets. These companies, acting as independent legal entities, will take on the owners' rights, responsibilities, and interests. In this way we will bring into full play the functions of the ultimate owners and solve a longstanding problem concerning the owners of state enterprises. Still others hold that the joint stock system is an important means, but not the only choice, for reforming the state enterprises' property rights system. Some scholars believe that the joint stock system will produce a powerful impact on the reform of the property rights system for state enterprises, but will not become the final form of such property rights. On the contrary, it will have an even greater effect on the property rights of other economic sectors than on the property rights of state enterprises.

**2. Do conditions exist for implementing the joint stock system at this time?** Some scholars hold that certain conditions must exist for the implementation of the joint stock system. In their opinion, we should not rush headlong into a mass action of imposing the joint stock system indiscriminately on all enterprises. Presently, as an incentive measure, the joint stock system may be implemented by enterprise groups and by town and township enterprises and practiced on a trial basis in coastal areas. Other scholars believe that the purpose of the joint stock system is to reform the property rights system on a macro scale in the entire society. Therefore, our task should not be limited to the marketing of stocks in small quantities for just a few enterprises. Instead, the joint stock system should cover the enormous state assets, which account for an overwhelmingly large proportion of our social assets. Other scholars are of the opinion that so far there has been no change in the government's functions, the price system remains irrational, and the market has not yet developed soundly. Under such circumstances, we do not have the objective conditions to institute the joint stock system immediately.

**3. On the question of establishing share ownership.** Some scholars believe that China should draw on Japan's experience to develop joint stock enterprises whose shares are by and large held by each other (as legal entities). Now, we can let the legal entities within existing enterprise groups hold each other's shares. This will not only solve the administrative question of the groups, but also achieve the goal of genuine separation of ownership from managerial power. Most scholars hold that the establishment of share ownership is one of the most sensitive and difficult parts of China's reform

toward the joint stock system. A priority question to be solved is who should hold the property rights: (1) Who should be the legal entities to represent the enormous fixed assets of state enterprises? The National Administration of State Property or the stockholding companies acting as legal entities? Every proposed solution to this question involves a number of issues to be discussed and straightened out. (2) How should the bonds issued by enterprises be turned into stocks? Undoubtedly, if the enterprise is not profitable, the creditors are not willing to become stockholders. Also, the enterprise should not let the stockholders bear the burden of unprofitable investment. (3) Who should own the share covering the enterprise's fixed assets resulting from the change of the financing system from fund allocations to loans, the bank, the enterprise, or the government? If all the three are involved, how should the share ownership be prorated? (4) Who should own the share of the enterprise's self-provided funds? Some hold that setting up an enterprise share for these funds is not only illogical, but also infeasible as proved by practical experience. Can this share be given to the staff and workers as envisaged by the enterprise? This is also infeasible because to do so will, no doubt, lead to a host of questions, both theoretical and practical. (5) Now, most enterprises have an initial fund. How to turn this initial fund into share ownership and how to distribute it are also questions that should be solved immediately. (6) In addition, the process of turning assets into share ownership involves a string of technical questions, such as the criteria for fixed asset assessment, how to set the value of the land presently occupied by enterprises, how to transform this value into shares, and how to turn into share ownership the enormous amounts of nonproductive fixed assets owned by many enterprises. To solve these questions, a suggestion representative of the scholars' opinions is to use a "simulated auction method." This method involves two phases. In the first phase, on the simulated-share-auction market, the government administrations of state property at various levels auction to stockholding companies the simulated shares covering the capital currently held by state enterprises. In the second phase, the stockholding companies openly issue stocks and put them on the securities market for subscription by the public so as to socialize the share ownership of state assets.

**4. On China's financing method.** As to the desired financing model, some scholars hold that we should establish a strategy of relying principally on indirect financing while using direct financing as a supplement. The reason is that indirect financing requires only a relatively low degree of division of power, is readily adjustable and controllable, and can bring about pretty good results in implementing the nation's industrial policy. Such being the case, any effort to promote and develop direct financing should be guided by the above development strategy. Generally speaking, direct financing should be developed to a fairly great extent in China today in view of the fact that this form of financing was seldom used in the past. However, there is

a limit to its development. We may not and should not use direct financing to totally replace indirect financing just because our indirect financing system still have some unresolved problems. Theoretically, indirect financing is more advanced than direct financing. We need to reform China's current financial system, sever the bank-government relations, and have banks operate as genuine enterprises. In fact, even though stocks are the most predominant form of direct financing, stock transactions are not carried out by stockholders directly but are conducted through intermediaries. The opinion held by other scholars is that China should now go all out to develop direct financing. Only by establishing a direct financing system, is it possible to do away with the numerous disadvantages of relying on banks as principal investment organizations and to guarantee the interests of investors. To operate banks as enterprises has long been a hard-to-achieve goal. Perhaps, the only way to realize this goal is to set up a direct financing system and deactivate the bank's investment function. Referring to the relationship between direct and indirect financing, some scholars deem it necessary to properly handle the question of stock dividends versus interest. They feel that in the case of joint stock companies holding each other's shares as legal entities, dividends may be kept at a relatively low level, even lower than the interest rate. This is because the stockholding legal entities are aimed at gaining control over the companies rather than making profits. But most scholars feel that such an idea is impractical at this time when China's stock market is only at the initial stage of development. In their opinion, the most fundamental way to control stock dividends now is to solve the question of supply and demand. It is necessary to broaden the scope of stock issuance and marketing. The greater the extent of standardization of stock issuance and marketing, the easier it is to crack down on and guard against speculation.

This symposium served as the beginning of a campaign to canvass valuable opinions. With regard to the reform toward the joint stock system, a host of theoretical questions remain to be probed and studied in depth. To sum up, these questions are: (1) relationship between the reform toward the joint stock system and the reform of the property rights system; (2) conditions for implementing the joint stock system; (3) technical questions involved in the implementation of the joint stock system; (4) the standardization of the stock market; (5) effects of stock issuance on savings deposits in banks; (6) the functions and roles of banks after the joint stock system has been put into practice; and (7) the macro regulation, control, and management of the capital market by the state.

## INDUSTRY

**QIUSHI Calls for Invigorating Oil Industry**  
*HK2008002092 Beijing QIUSHI in Chinese No 13,  
1 Jul 92 pp 9-11*

[Article by Zhou Yongkang (0719 3057 1660), vice president of the China National Petroleum and Natural

Gas Corporation: "Transform Mechanisms in Three Layers, Enhance the Petroleum Industry's Vitality"]

[Text] Petroleum is an important strategic material and occupies a decisive position in the national economy's comprehensive balance. During the early days of the founding of the PRC, China's petroleum industry was very weak, with an annual output of just 120,000 tonnes. In the 1950's, the state energetically organized petroleum prospecting, and in the early 1960's, it succeeded in launching the great Daqing battle for oil, thus ending the situation in which China relied on imported petroleum and ushering in a new period of petroleum industrial development. Later on, thanks to the state's support, we carried out prospecting and development of the Shengli, Dagang, Liaohe, and Huabei [North China] Oilfields. Hence, there has been a vigorous development in the petroleum industry. Particularly, the drive of reform and opening up to the outside world has helped energize the petroleum industry, enabling the industry to maintain a good momentum for sustained and steady growth. Last year, crude oil output was 137 million tonnes, which served as an important contribution to the national economy's development.

For the petroleum industry to achieve faster and greater development and further meet the needs of developing the national economy, it is necessary to thoroughly reform the economic structure which fetters the productive forces. In light of the petroleum industry's current conditions and characteristics, with state macrocontrol as the premise, we should transform the production and operation mechanisms in three layers to continuously enhance the petroleum industry's capacity for development.

#### **I. While Tightening Macrocontrol, the State Should Devote Attention to Galvanizing Petroleum Trade**

In view of the petroleum industry's important position, it is entirely necessary for the state to exercise macrocontrol over the industry. The petroleum industry's development over the last 40 years or so has fully shown this point. In the 1950's and 1960's, the state, which was beset with great financial difficulties, adopted a special investment policy for the petroleum industry and effectively mobilized all forces in society to support the industry in carrying out the great battle for oil. Under the guidance of the state's macroeconomic plans, the great battles for oil have resulted in tremendous cohesiveness and great appeals, thus enabling the petroleum industry to grow rapidly. Without the guidance of the state's macroeconomic plans and support, it would have been impossible for the petroleum industry to achieve today's scale and level within a short span of several decades, as one may well imagine.

China's petroleum industry has hundreds of billions of yuan in assets and 1.4 million employees. While upholding the state's macrocontrol, how to bring the petroleum trade's enthusiasm into play and enhance its vitality has become crucial to the petroleum industry's

further development. In the past, the state decided the petroleum industry's development scale; the distribution of products and prices were handled according to state plans; and the import and export of crude oil, materials for special use, equipment, and technology were put under unified state management. These drawbacks of overconcentration sapped the petroleum industry's motive force to develop itself and its inner vitality. To end this situation, it is necessary to reform the contents and modes of state macrocontrol and give more decisionmaking powers to the petroleum trade. The state should mainly control the objectives of the petroleum industry's long- and medium-term development and the availability of crude oil and natural gas for yearly national use; control the policies, channels, tax categories, tax rates, and credit rates through which the industry raises funds; and control the areas to be opened up to the outside world and the ways to do so. As far as the petroleum trade's other major production and operation activities are concerned, they should be organized independently by petroleum departments in accordance with market supply and demand and the requirements of the law of value. For example, petroleum departments can readjust the prices of crude oil and natural gas within the limits prescribed by state stipulations; readjust imports and exports, in particular, the volume, channel, and direction of crude oil to be exported, in light of the international oil market trends; in light of the labor market situation in the petroleum prospecting and extraction at home and abroad, readjust in good time the tactics and principles concerning the sending abroad and introducing from abroad of construction builders in areas such as material prospecting [wu tan 3670 2232], well drilling, oil testing, well logging, oilfield construction, and oil systems engineering construction; and in light of the trends of market supply and demand of capital goods at home and abroad, decide the direction, channel, and ratio of the purchases of bulk oil-related materials and equipment from domestic and overseas markets. In this way, the enthusiasm of both the state and the petroleum trade can be brought into full play, the trade can gradually become market-oriented under the control of state planning, and the petroleum industry can develop centering on meeting the national economy needs.

Since 1981, the state has pursued a 100 million-tonne crude oil output contract system and a system under which the commodity availability constant of natural gas is fixed by contracts in the petroleum industry. Under the contract systems, the crude oil and natural gas in excess of the norms prescribed in the contracts can be sold in domestic markets at higher prices and all income gained from any price disparity goes to the prospecting and development fund, and all income in foreign currency from exporting above-norm crude oil goes to the petroleum trade for its own disposal. In the last 10 years following the introduction of the contract systems, the petroleum trade has overfulfilled the tasks it contracted from the state every year and supplied natural gas according to the state plans, and thus met the national

economy's needs. At the same time, the petroleum trade sold the above-norm crude oil in light of market supply and demand, with prices set according to quality and managed to raise 30 billion yuan or so in funds through its own channels by using the disparity between market and government-set prices. This helped promote the petroleum industry to keep developing. Petroleum departments earned more than \$10 billion in foreign exchange through exporting their above-norm crude oil. They imported large quantities of oil-related materials, technology, and equipment and developed a batch of oilfields using the foreign exchange and foreign loans.

## **II. The Starting Point of Reforming the Trade Management Structure Is Pumping New Vitality Into the Oil and Gas Fields Which Serve as Economic Entities**

The petroleum trade covers 18 oil and gas fields across the country, which are economic entities holding billions and even tens of billions of yuan in fixed assets. They have complete productive capacity ranging from prospecting to extraction and a work force ranging from tens of thousands of people, to 100,000, and even 200,000 people. More often than not, a new oil and gas field will take many years of repeated prospecting and an investment of hundreds of millions, even billions, of yuan before it can be opened and put into production. It is difficult for an oilfield to bear, in terms of human, material, and financial resources, the cost of seeking and opening up a new oil and gas field just using its own accumulation. Therefore, as far as the national oil and gas prospecting and extraction is concerned, only when the petroleum trade plans; concentrates necessary human, material, and financial resources for oil and gas prospecting; and defines an appropriate strategy for oil and gas field development can resources and output replacement [jie ti 2234 2583] be achieved on the whole.

However, for many years, the petroleum trade has controlled the production and operation of various oil and gas fields too excessively and put their production and construction plans and investments, product marketing, and their employees' wages under unified management. Consequently, they lacked initiative in production and operation and enthusiasm in strengthening management, achieving scientific and technological progress, and improving economic efficiency.

To enhance the petroleum industry's vitality, it is necessary to put the starting point on enhancing the vitality of various oil and gas fields and reform the contents and means and ways with which the petroleum trade manages and controls oil and gas fields. In accordance with the requirements of developing a commodity economy, the China National Petroleum and Natural Gas Corporation should mainly study and formulate a development plan for the whole trade in line with the needs of developing the national economy, decide the policies concerning the prospecting and extraction areas, prospecting direction, and development technology of the various major oil and gas fields across the country; and

in accordance with the state plans, decide the various oil and gas fields' long-range and annual oil and natural gas production tasks and commodity rates and define the direction of crude oil and natural gas sales and the amount to be sold in the international market to ensure that a benign circle is achieved in resources replacement, output replacement, and fund replacement and that the state plans are implemented. With this premise achieved, it is necessary to genuinely regard the enterprises under the jurisdiction of the various oil and gas fields as independent economic entities; encourage them to become market-oriented; and allow them to independently define their own prospecting and extraction directions, raise money through their own channels for their own prospecting and extraction funds, and form their own ranks of construction builders through their own choices. The enterprises under the various oil and gas fields can strive to get involved in the domestic and overseas markets according to their own specialties; carry out a diversified economy; develop the tertiary industry; turn out products that have ready markets at home and abroad; under the guidance of state planning, sign contracts for crude oil and natural gas supply and marketing with the users; and establish national sales networks for finished and other oil products. These reforms will help oil and gas fields enhance their commodity economic awareness on self-accumulation and self-development.

Since the beginning of this year, we have introduced an input-output contract system among 14 oil and gas fields, under which the oil and gas fields raise money through their own channels for their production development funds and seek loans according to their development prospects and repayment ability to make up for the remaining amount of funds they still need. As a result, the mechanisms of striving for projects and investment and for competing for high consumption have thus been gradually eliminated. In production operation, some oil and gas field units have broken the bounds of exclusively carrying out production and operations within their own oil and gas fields and entered the national petroleum prospecting and extraction market and other markets. In operation and management, the modes of selling crude oil and natural gas according to the allotment system based on the state's mandatory planning is now being changed; lateral economic relations between oil and gas fields and the users have gradually been established; and national three-level sales networks have taken shape. Currently, some 70 sales networks have been set up and an additional 900 million yuan a year can be created therefrom. After some products were sold in the international market, the oil and gas fields' foreign exchange earnings have increased. The market supports the well site and the latter gives an impetus to the former, each promoting the other. The vigor and vitality of oilfields for development have thus been boosted. In the eye-catching great Tarim battle for oil, we conducted bold reform; brought the enthusiasm of oil and gas fields into play; and made full use of market mechanisms. Hence, an oil market with oil prospecting and extraction playing



the dominant role and the improvement of investment results and economic efficiency as the center has taken shape and a situation characterized by fierce competition in such areas as talent, technology, equipment, quality, and work efficiency has emerged.

### **III. For Oil and Gas Fields To Transform Production and Operation Mechanisms, They Should Stress Boosting the Vitality of Enterprises Under Their Jurisdiction**

All oil and gas fields are large integrated complexes. Every oil and gas field is composed of tens of enterprises with different functions but complete production capacity, whose fixed assets range from tens of millions of yuan to over 100 million yuan and whose number of employees ranges from several thousand to over 10,000 people. In the past, oil and gas fields practiced "workshop-style" management among their subordinate enterprises so that the enterprises relied on their oil and gas fields economically; in production, they "carried administrative orders down to the grass-roots levels"; and in distribution, unified standards were applied. All oil and gas fields ate from "one and the same big pot." This management structure dampened the enthusiasm and initiative of the enterprises and grass-roots units. They lacked a sense of the market and competition and inner vitality.

Through the reform practice over the years, we have come to realize: Enterprises under an oil and gas field are the basic units carrying all kinds of production and operation activities and the source and foundation on which the oil and gas field depends for its survival and development. To transform mechanisms and invigorate oilfields, it is necessary to firmly grasp the focal point of enhancing the vitality of the subordinate enterprises of oil and gas fields. Once they are invigorated, this also means that oil and gas fields are invigorated too. In the great tide of developing the socialist commodity economy, it is necessary to grasp the opportunity, let "the tigers" return to the mountains, and promote the enterprises under oil and gas fields, which relied on the oil and gas fields for their survival and development in the past, to become market-oriented.

For that purpose, we have gradually turned the enterprises under the jurisdiction of oil and gas fields into economic entities which assume full responsibility for their profits and losses and have independent accounting. Oil and gas fields have thus progressively become enterprise combinations [lian he ti 5114 0678 7555] composed of several independent enterprises, which are granted the power to make their own production and operation decisions and to direct themselves. The tens of enterprises under the jurisdiction of an oil and gas field are divided into three groups: The petroleum and gas prospecting and extraction units take charge of proving and locating reserves and ensuring

output, and they rely on petroleum and gas for their survival; the construction units provide the prospecting and extraction of petroleum and gas with various technological services, undertake the construction of oil and gas fields, and rely on labor service for survival; and units engaged in diverse economic undertakings provide the petroleum and gas prospecting and extraction units as well as the construction units with various services in production and likelihood, and they rely on service for their survival and, at the same time, they can increase revenues and develop themselves by turning out goods other than oil products, which are needed in domestic and overseas markets. We have introduced a major reform in the relations between enterprises, established a commodity economic relationship, and introduced market competition. Oil and gas fields have delivered the oil prospecting and extraction fund to the petroleum and gas prospecting and extraction units and construction enterprises and enterprises engaged in diverse economic undertakings established economic contracts with them. While actively and willingly providing services, they can strive for their own economic results. Meanwhile, we have also linked distribution with work quality, project completion time limit, and cost; and adopted various distribution methods, such as efficiency wage, piece rate wage, and the wage which is determined by a certain amount of value created by finished work, thus getting rid of egalitarianism and further implementing the principle of distribution according to work done.

While carrying out reform, the Daqing Oilfield introduced a contract system combining production tasks with economic efficiency among its subordinate oil and gas prospecting and extraction enterprises at all levels, a lateral contract system and project management in various construction operations and the construction of projects, and at the same time, set up internal banks, issued internal settlement documents, and set unified prices of internal labor and service quotas; thus an oil prospecting and extraction market took shape in the oilfield. Consequently, the enthusiasm of subordinate enterprises and their employees was brought into full play; overall economic efficiency was greatly boosted; and annual revenues through the drive of increasing revenues and reducing spending amounted to hundreds of millions of yuan. The oilfield has thus managed to ensure high and steady output and fulfill or overfulfill oil and gas production tasks every year. After discovering the Erlian oil region [you qu 3111 0575], instead of developing the region by adopting the method of launching big and complete or small but complete new undertakings, the Huabei Oilfield set up a prospecting and extraction market in the region to invite construction and logistic service units within the oilfield to work in the Erlian region through competitive public biddings. This has enabled the Erlian oil region to form its production capacity quite rapidly, with the cost of crude oil dropping to about 80 yuan per tonne.

## SMALL-SCALE ENTERPRISES

### Township Enterprises Move to High-Technology

92CE0613A Beijing NONGMIN RIBAO in Chinese  
15 Jul 92 p 1

[Article by Fu Zhidi (0265 0037 2769) and Tang Yuanjie (0781 0955 4814): "Seeking High Efficiency Through High Technology"]

[Text] Town and township enterprises, which are said to "make up one-third of the world," now propose the ambitious goal in the next few years to achieve high efficiency through high technology, and thereby really become "half of the nation's economy" by the end of this century. That is, their gross output value will reach 2.64 trillion yuan, accounting for 70 to 75 percent of the total value of output for rural society, and labor productivity will rise from the present 7,900 yuan to 12,000 yuan.

According to the Ministry of Agriculture, these ambitious goals for the end of the century are: Town and township enterprises will struggle to increase employment to 140 million, accounting for approximately 30 percent of the total rural labor force; the contribution of technical progress to the growth of total value of production will increase from the present 35 percent to 48 percent; and the input-output ratio at village enterprises will rise from the present 1:1.57 to 1:2.2. At the same time, 35 percent of the workers will have at least a high school education, and key enterprises will meet the requirement of one head and three experts (the factory head, the engineer, the accountant, and the economics officer will all have, at least, attended college.)

To assure that these goals are achieved on schedule, the Ministry of Agriculture recently issued a special release titled "Outline of Strategy for Achieving Scientific and Technical Progress in Town and Township Enterprises," pointing out that, between now and the end of the century, town and township enterprises will enter a new era of reliance on scientific and technical progress, when improvement and development must both receive equal stress. The general guiding principle will be to direct a business toward multi-level development according to its classification by adopting advanced applied technology as the main thing. In eastern coastal regions, and in counties surrounding large- and medium-sized cities, technical progress at town and township enterprises will be carried out around the principle of "the three bests, the three creations, and the three improvements." These are the best technology, the best management, the best quality; creating superiority, creating foreign exchange, creating new ideas; and improving economic efficiency, improving social efficiency, and improving environmental efficiency. In areas at a middle level of development, measures will be chosen to suit local conditions, determine the advanced applied technology to use, improve while developing, and develop while improving. Lesser-developed areas must begin by ameliorating poverty. They must choose appropriate and

traditional technology, exploit their own advantages in raw materials, and produce items that are needed in the market, and that will give a return on investment in the near term. They must choose leading enterprises well, and newly-established enterprises must adopt technology at a high starting point to prevent them from having to carry out technical transformation as soon as they have started.

In addition, first priority must be given to raising the quality of the army of millions upon millions of workers in the main labor force, gradually establishing a corps of workers at town and township enterprises who have the ability to develop new products, absorb new skills and technologies, operate and maintain new equipment, and who have relatively high scientific management ability, so that specialized technical personnel will increase from the present 2.6 percent of all staff and workers to 3.5 percent.

## TRANSPORTATION

### Shandong Opens New Air Route With Southwest Cities

SK0609055892 Jinan Shandong People's Radio  
Network in Mandarin 2300 GMT 5 Sep 92

[Text] The new air route between Qingdao and Kunming through Chongqing, which had been jointly opened by the Qingdao station of China Civil Aviation Administration and Yunnan Air Lines, opened up on 1 September. The round-trip flight uses Boeing 737 planes on the new air route between the two cities. It will be available on every Tuesday and Friday. The flight is nearly 2,000 km.

## AGRICULTURE

### Hog, Egg Prices Up Slightly

92CE0642E Beijing JINGJI RIBAO in Chinese  
7 Aug 92 p 3

[Article: "Hog Prices Get Out of a Trough; Egg Prices Continue Upturn"]

[Text] Statistics from 31 major producing counties in 10 major producing provinces showed the purchase price of hogs in the state-owned economy averaging 1.57 yuan per 500 grams in July, up one fen from the previous month. The country fair price of hogs was 1.61 yuan per 500 grams, down one fen from the previous month. The retail price of pork in the state-owned economy was 2.55 yuan per 500 grams, up two fen from the previous month; and the country fair price of pork remained the same as during the previous month at 2.59 yuan per 500 grams.

During July, both the hog procurement price and the retail price of pork in the state-owned economy remained stable with some rise. This was mostly because

with the waning of the lesser busy season in hog production together with large cities continued removal of price controls on pork, and a rise in country fair grain prices from the 0.31 yuan of the previous month to 0.32 yuan in the current month, both hog procurement prices and pork retail prices have slowly began to come out of a trough. Worth mentioning is the further 0.01 yuan decline in the current month 2.47 yuan per 500 grams price for shoats on top of the 0.18 yuan decline last month.

Pork prices continued to rise in 10 cities, but the degree of increase slowed markedly. The state-owned economy pork sale price in August is 2.76 yuan per 500 grams, up

0.03 yuan from the previous month, and the state-owned economy price of pork in June was 0.13 yuan higher than in May. The main reason for stable pork prices with slight rise in 10 cities during August is that after Tianjin, Harbin, and Wuhan removed price controls on pork in June, Taiyuan, Dalian, and Changsha removed price controls on pork in July.

The sale price of eggs in the state-owned economy is 2.11 yuan per 500 grams, up 0.07 yuan from July. The country fair market price is 2.14 yuan, up 0.01 yuan from July. It appears that after getting out of a trough, egg prices in both the state-owned economy and in country fair trade remains steady with a slight rise.

### **Government Vows To Support Women's Environmental Role**

*HK1009024692 Beijing CHINA DAILY in English  
10 Sep 92 p 1*

[By staff reporter Wang Rong]

[Text] China will play an active role in the global effort to promote women's contributions to social and economic development, an international conference was told in Beijing yesterday.

"The Chinese Government will give every support to women's participation in the national drive to enhance economic growth and improve the environment," Deng Nan, vice-minister of the State Science and Technology Commission made this pledge at the opening session of the Inter-regional Workshop on the Role of Women in Environmentally Sound and Sustainable Development.

The week-long workshop held in Beijing is co-sponsored by the Chinese State Science and Technology Commission (CSSTC), the All-China Women's Federation (ACWF), the UN Department of Economic and Social Development (UNDESD), and the UN International Research and Training Institute for the Advancement of Women (INSTRAW).

The workshop attempts to strengthen the recognition of women's significant potential and to discuss approaches to better integrate women into the collective efforts to achieve progress while protecting the environment, conference representatives said.

The conference is a follow-up to the 1991 Miami International Forum on Women, Environment and Development (WED) and the UN Conference on Environment and Development, or the Earth Summit held in June in Brazil.

Chinese women are ready to join hands with those from other countries to participate more intensively in the global drive to achieve sustainable social and economic development, Deng said.

China, a developing country striving to achieve ambitious economic goals, is also encountering a pressing need to maintain its ecology.

"We believe that for a developing country, the most important task is to increase the comprehensive national power," she said. "But at the same time, due attention must also be given to the protection of the ecological environment."

Chinese women, she said "will take up the dual task."

Guan Tao, member of the ACWF secretariat gave a statement about how China and Chinese women have contributed to environmental protection, population control, education and technology.

The workshop was designed for the 130 participants from about 30 countries, UN bodies and agencies to exchange information.

### **Officials Reportedly Persecute Luo Zhengqi**

*HK1009061292 Hong Kong CHING CHI JIH PAO  
in Chinese 29 Aug 92 p 3*

["Special dispatch" by special correspondent Chang Hua (1728 5478): "Former Shenzhen University President Luo Zhengqi in Misery Since Removal From Office Due to 4 June Incident"]

[Text] The first university president in the country sacked because of the 4 June incident, President Luo Zhengqi of Shenzhen University, and his wife Liang Hongwen recently suffered more misery; the authorities not only persecuted them politically but also exerted economic and ideological pressure on them.

According to a friend from Shenzhen University, since the end of 1989, when He Dongchang pinpointed Luo Zhengqi's name for dismissal from the party, Luo has been under a lot of pressure from various quarters, and many of his benefits have been canceled. He could only just live on the basic salary he received, and under pressure from the authorities demanding that he be transferred out of Shenzhen, he could not but "request" retirement.

According to people who know Luo Zhengqi's situation, President Luo's misery today is the outcome of the trick by a single person, namely He Dongchang. In the past, when both Luo Zhengqi and He Dongchang were sitting on the Standing Committee of the party committee of Qinghua University, He Dongchang saw him as a thorn in his flesh. Thereafter, the professors and graduate students at Shenzhen University held demonstrations during the 4 June period, and He Dongchang "grabbed" the chance to "fix" him. Although no evidence has been found, He Dongchang has not stopped, but tried to further persecute Luo Zhengqi and his wife using the excuse of a "transfer." Although He Dongchang has been ousted recently because he was excessively leftist, the relevant personnel have not stopped persecuting President Luo.

### **Universities To Increase Postgraduate Enrollment**

*HK0909050792 Beijing CHINA DAILY in English  
9 Sep 92 p 1*

[By staff reporter: "Postgraduate Enrollment Takes New Twist"]

[Text] Colleges and universities in China are being encouraged to enroll more enterprise-sponsored or self-supported postgraduates next year—a significant development in higher education.



Postgraduate enrollment has been under sole control of the State Education Commission (SEC), but "no longer," said Hu Fugong, an official with the SEC.

Besides those students under government plan, universities may enroll students for master's degrees according to the requirements of enterprises or institutions which offer financial support for the students. Those students will be assigned to work in the sponsoring institutions when they graduate, he said.

Colleges may also enroll post-graduates who pay their own way.

The policies, which go into effect next year, will help the colleges learn more about social demand for well-educated personnel so that education can better serve economic development, he said.

State-run large- and medium-sized enterprises, foreign-funded enterprises and township enterprises are also still encouraged to send their employees through the State's uniform postgraduate exam system.

The number of postgraduates enrolled under the State plan will be strictly controlled and may well be reduced in the next few years, Hu said.

More than 80,000 such students are studying in colleges throughout China. They are supported by the central government and are engaged mainly in research in the basic sciences and other fields which do not directly benefit economic development.

Since China inaugurated its present academic degree system in 1981, universities have issued master's degrees to nearly 210,000 and doctoral degrees to about 7,000 students.

The SEC also moved up the dates for postgraduate tests by about 20 days to enable applicants to learn their outcome earlier.

Meanwhile, the SEC issued a circular on the eve of the National Teachers' Day (September 10), calling for more funds to improve schools.

The circular said that from 1981-91, the education sector collected 106 billion yuan (\$19.3 billion) for school improvement.

Of that, 35.7 billion yuan (about \$6.5 billion) was from the State and 70.8 billion yuan (about \$12.87) came from donations from various segments of society.

School construction and renovation came to 672 million square metres, and sub-standard classrooms declined nationally from 15.91 percent of the total in 1981 to 1.6 percent in 1991.

The circular says that schools have obtained 116 million desks and stools, and more than 800,000 schools have had their teaching equipment renewed, text books increased and libraries and school grounds improved.

### State Education Commission on Raising Education Funds

OW1009101392 Beijing XINHUA Domestic Service  
in Chinese 2109 GMT 6 Sep 92

[Text] Beijing, 7 September (XINHUA)—The State Education Commission today issued an announcement on "Raising Education Funds Through Various Channels To Improve Conditions for Running Schools." The full text follows:

Since the Third Plenary Session of the party's 11th Central Committee, especially since the issue in 1985 of the "Decision of the CPC Central Committee on Reforming the Educational System," party committees and governments at various levels have attached great importance to educational work and put reform and the development of education in an important strategic position. They have conscientiously implemented the principle of "people's education run by the people for their own interests" and persisted in raising education funds through various channels. As a result, remarkable changes have taken place in middle and primary schools in our country, and conditions for running schools have greatly improved. Now middle and primary schools in most parts of the country have achieved the purposes of each school having no dangerous buildings, each class having its own classroom, and each student having his or her assigned desk and chair. According to incomplete statistics, 106.6 billion yuan was raised through various channels from 1981 to 1991 to improve conditions for running middle and primary schools. Of these funds, the state appropriated 35.7 billion yuan and society raised and donated 70.8 billion yuan. With the funds, 672 million square meters of middle and primary school buildings were repaired, built, or rebuilt. As a result, the proportion of dangerous middle and primary school buildings decreased from 15.91 percent in 1981 to 1.6 percent in 1991; and the proportion of dangerous school buildings in 13 provinces (autonomous regions and municipalities) dropped to less than 1 percent. An additional 116 million sets of desks and chairs were purchased. At the same time, teaching instruments, books and reference materials, recreational and sporting equipment, and campus facilities in more than 800,000 middle and primary schools increased in varying degrees. The changes which have taken place in our middle and primary schools, improved conditions for running schools, and the fulfillment of the tasks of each school having no dangerous buildings, each class having its own classroom, and each student having his or her assigned desk and chair are the results of the great strategic importance attached by party committees and governments at various to education and the great efforts made by them in this regard as well as of the great contributions made by various circles, the broad masses of people, Hong Kong and Macao compatriots, and Overseas Chinese in supporting education. These great achievements will go down in the history of educational development in our country.

In elementary education, we are faced with the arduous tasks of giving effect to nine-year compulsory education, basically eliminating illiteracy among young people, implementing the party's educational policy in an all-around way, and comprehensively improving the quality of education in the 1990's. Present conditions for running elementary schools have yet to meet the requirements for accomplishing the above tasks. For this reason, we must conscientiously implement the guidelines set forth in the speeches made by Comrade Deng Xiaoping during his south China tour, continue to accelerate education reform, continue to improve mechanisms for raising education funds, and further improve conditions for running schools. We should strive to bring elementary education in our country to a new stage by the end of this century.

### **Mental Patients Jeopardize Public Order**

92CM0379D Hong Kong MING PAO in Chinese  
19 Jul 92 p 21

[Article by Li Yu (2621 6735): "Mental Patients Number 10 Million, Jeopardize Mainland Public Order"]

[Text] As revealed by informed sources of the Chinese departments concerned, the mainland now has 10 million mental patients, of whom two-thirds are in rural areas. Unable to control themselves, they have committed suicide, injury, rape, arson, destruction, and robbery, doing untold harm to society.

According to information obtained, incidence of mental disorder on the mainland was two per thousand in the 1950's. It went up to 10.54 per thousand in the 1980's and 11.54 per thousand in the 1990's. In Tieling City, Liaoning Province, 33,401 mental patients have been discovered in the 3.35 million population. In Chekiang Province with a population of some 41 million, more than 500,000 people are suffering from mental disorder. The number is equivalent to the population of a medium-sized city.

Mental disorder is also plaguing university campuses. In the 21 universities in the Hsian area, recently 78 students have suspended or discontinued their schooling because of mental disorder. In the 31 key institutions of higher education in Beijing's Haitian District, as many as 188 students have prepared to suspend or discontinue their study in just one year on account of mental problems.

The 10 million mental patients are 10 million factors affecting the stability of our society. They can do whatever they please without bearing any criminal liability. A patient by the name of Chu suffering from depression was tired of life and wanted to commit suicide. Feeling that it would be too lonely for him to go to the netherworld himself, he asked two good friends to come to his house for wine, to which he had added sleeping pills. When the two friends fell asleep, Chu killed them with a big wrench. Then, he attempted to kill himself. Beyond his expectation, however, he was saved by others, but his

two good friends were killed by him. After Chu was sent to a psychiatric hospital, he strangled to death another patient who was friendly toward him.

In a certain locality, a schizophrenic man named Chen was laden with anxieties and behaved abnormally because he always felt that someone was shadowing him with the intention of hurting him. One day when he saw his father, mother, and brothers chatting at the table, he thought that they were discussing how to kill him. He picked up a brick and threw it at them. Instantly, one of the family members fell in a pool of blood and died. When the others came to stop him, Chen picked up a kitchen knife and slashed indiscriminately. When the police arrived, several dead bodies were lying on the floor. Six were dead and 11 wounded.

Li was a young woman who became insane after her lovely, vivacious daughter was drowned in a river. She made a gun and some daggers at home and drew up a list of her possible "enemies," saying that she would find the "murderer" that "killed" her daughter. One day she went back to the factory where she used to work, asked the factory director to come out, and fired a shot at him with her self-made gun. The factory director fell down immediately. After that, she carried her gun and "stood guard" on the street every night, saying that she was doing this to protect her daughter. The local residents were terrified by her behavior.

Because of the above instances, many families deem it a shame as well as a burden to have a member with mental disorder. Some families have sent their mentally ill members to hospitals and then cared nothing about them. Some mental patients have recovered, but their relatives are unwilling to take them back. Some families have even left their mentally ill members unattended on the street like discarded dogs and cats. A man named Chen once had emotional psychosis, but was cured after treatment and checked out from the hospital. Then, he finished the regular college course. But when he applied for employment, the units with vacancies politely turned down his application after learning that he had had mental problems. As a result, he remained jobless for years. Feeling completely hopeless, Chen committed suicide by taking poison. In another instance, a youth named Wang, whose mother died long ago, became mentally ill. His stepmother treated him even worse than pigs and dogs. To get rid of this encumbrance, his stepmother cheated him into going with her to a small town, saying that she was taking him to see a doctor in the city. Then, his stepmother departed without letting him know.

Most mental patients receive no solicitude and assistance from others. Nor are good medical and rehabilitation conditions available for them. As far as we know, psychiatric hospitals of many provinces and municipalities on the mainland are located in remote rural areas, and lack of transportation facilities makes it difficult for patients to go there for treatment. The Wuhu City Psychiatric Hospital, in charge of "psychosis control" for

the city's 6 million population, is located in a village 79 kilometers away from the downtown area. To go to the Taichou City Psychiatric Hospital, located in Tientai County in the northernmost part of the city, one has to take a 68-kilometer winding mountain path. The 200-bed Shaokuan City Psychiatric Hospital is in a small ravine 32 kilometers away from the downtown area. Not a single town exists with a radius of eight kilometers around this hospital. Staff and workers rely on the hospital bus for transportation between their homes and the hospital. To go there for treatment, one has to walk 12 kilometers after getting off the vehicle. Many patients are, therefore, terrified by the difficulty in making such a trip.

### Illicit Practices in Academic Circles

92CM0379C Beijing FAZHI RIBAO in Chinese  
19 Jul 92 p 2

[Article by Zao Xing (2483 5887): "Three Ugly Features of Academic Profiteers"]

[Text] Academic profiteer is an elegant name given to those engaged in profiteering in academic circles.

Now, the profession of profiteers is noted for the large number of people and the great variety of categories. There are ticket profiteers, book profiteers, electricity profiteers, vehicle profiteers, and so forth. Whatever is in scanty supply on the market, there are a lot of profiteers in that field. These profiteers are exceptionally rich. They live in luxurious apartments, frequent star-class hotels, wear brand-name clothes, and carry "beepers," displaying an upstart style as if their wealth were inexhaustible. In the eyes of the public, however, they are of very low personality, almost as low as criminal offenders. Of course, no matter what categories they belong to, the goals of profiteers are curiously identical: money!

In this regard, academic profiteers are much more graceful and clever than any other profiteers. Because of their status and educational background, the primary target of their "profiteering" is fame, while money is only the second thing. In a word, they put more emphasis on fame than money. For this reason, academic profiteers do not present themselves at railway stations or on wharves like various kinds of small profiteers. Nor do they engage in under-the-table dealings or conduct secret negotiations as those "big profiteers" who have goods in hands. Elegant academic profiteers look down upon those people and would never do such despicable acts. Openly and confidently, they engage in profiteering without fear in broad daylight and before the public eye. While other profiteers are most afraid of black-and-white evidence, academic profiteers are entirely different. They want black-and-white things bearing their names. Failure to achieve this means that they are unsuccessful in profiteering and their profiteering technique is not superior.

So far, these academic profiteers have not yet been discerned by frank and honest people. Here I will briefly describe some types of academic profiteers so as to assist people in identifying them:

One type is called academic lords. Academic profiteers of this type usually have admirable titles, for example, such-and-such members or Standing Committee members or vice presidents of such-and-such academic societies. Because they are advanced in age, have to maintain frequent contacts with large numbers of acquaintances, and are busy with social activities, their academic knowledge advances slowly or even lags behind their peers. Under such circumstances, they have to stretch their hands to graduate students. For example, a doctorate student completed an academic paper and gave it to his professor for comments. After looking over the paper, the revered and prestigious professor first pointed out the shortcomings in the paper and then said in a serious manner: Your paper lacks a sound viewpoint and cannot be published. Leave it here for the time being. The student left speechless. Shortly afterward, this student saw a new article by the professor published in an authoritative journal. The article had exactly the same viewpoint as that contained in his paper submitted to the professor. Knowing that it was not easy to create an innovative viewpoint, his schoolmates suggested that he go to "talk" with the professor. Chuckling bitterly, the student said: You have to lower your head when you are under somebody's eaves.

The second is called the power type. Most of the power-type academic profiteers have such honorable title as chairmen, institute directors, or bureau chiefs, giving people an impression of respectability. Because of their superior positions and the reputation of their organizations, they can often obtain a large amount of material by a telephone call. They can often rest assured that their subordinates will supply whatever material they want. With material and data ready on hand, they need not take too much time to write various investigation reports that have clear-cut viewpoints, sufficient grounds, and a high academic value. All they have to do is editing and processing work. The names of the writers are, of course, the academic profiteers themselves—there is no need to be modest. As for those who have supplied the material, they are blockheads and should stand aside. This is really a situation in which you are unable to ventilate your complaints and can go nowhere to appeal.

The third type is plagiarism. The crux of academic profiteers of the plagiaristic type is that they are too eager for fame and always wish to get it by shortcut. They are hard-working and diligent and like to spend their time in libraries and reading rooms. With their sharp eyes, they can discover fine theses and works at a glance. The next steps are copying the theses and works, cutting and pasting them, and sending them out for publication. As I recall, when I was studying for my doctoral degree, I saw a "thesis specialist" student who used to copy the works of his schoolmates, article by article and passage by passage, without changing a single word. He and other

students lived in the same building, ate at the same table, and chatted in the same room. When his "trick had been brought to light," this plagiaristic student still joked merrily with others as if nothing had happened.

Mr. Lu Xun once said: Trickery requires skills and also has its limitations. Academic profiteering is no exception. With time, the cloven hoof will be shown. Although academic profiteers will not become the target attacked by everyone, they will be discarded to the garbage heap and stained with stinking filth. This is hard to accept.

### Property-Related Juvenile Delinquency Cases Increase

92CM0379B Beijing FAZHI RIBAO in Chinese  
2 Jul 92 p 3

[Article by Cao Guangyu (2580 0342 1342) and Yang Guofu (2799 0948 1381): "Characteristics of Property-Related Juvenile Delinquency"]

[Text] Property-related juvenile delinquency, including premeditated theft, robbery, swindling, and blackmail, is of the highest incidence among all crimes over the past few years. This kind of crime not only encroaches upon the property of the state, collectives, and citizens, but also severely disrupts the social order, hampers production, and adversely affects the smooth process of reform and opening to the outside world. With regard to this problem, we have investigated the 514 property-related delinquency cases, involving 1,134 juveniles, that the People's Court of Xinyang County, Henan Province, has handled since 1989. Our investigation reveals the following characteristics of property-related juvenile delinquency:

1. There were "four large numbers" among the delinquents, namely, large numbers of males, farmers, jobless youths, and delinquents committing crimes in pairs or in groups of three or more accomplices.

2. Secret theft accounted for the largest proportion of the cases of delinquency. Some cases combined stealing, robbery, and injury. These cases began with stealing and, when stealing was discovered, violence was committed on the spot. In some cases, knives were used to do physical injury.

3. Crimes are mostly perpetrated at night. As many as 397 cases occurred at night, accounting for 77.2 percent of the cases of property-related juvenile delinquency we have investigated. A delinquent by the name of Wu said: "This is because it is easier to do at night. It is easier to escape and hide the stolen things. Also, there are less chances to be caught."

4. Most cases took place in the countryside. Cases in the countryside accounted for 73.2 percent of the total number of property-related delinquency cases. This was

followed by delinquency committed in places of economic activities, including stores, warehouses, and factories. Next to these were places along transportation lines and in residential areas.

5. As for the property involved, cash, bonds, golden and silver jewelry, and high-grade household electric appliances were the main items stolen or robbed in residential areas. A larcener named Yang said: "When I went into a house, I mainly took cash and bonds because these items became money when they came to my hands. Of course, I did not ignore gold and silver jewelry, color TV sets, video cassette records, and cameras." In the countryside, delinquents' attention was focused on poultry and livestock. At stores, factories, and places along transportation lines, commodities and other things of real economic value were the main targets.

6. The destructive effect was enormous, and no consideration was given to the consequences. To get a piece of copper wire worth only a few yuan, a delinquent by the name of Yan stole the electric cable of a pumping installation ignoring the need of the masses to pump water to solve the drought problem. As a result, nearly 1,000 mu of fields could not be provided with water, and rice transplanting could not be carried out on time in these fields, causing an economic loss of some 20,000 yuan.

7. Before committing crimes, most of the juveniles had engaged in illicit practices. Their criminal acts have undergone a gradually developing process as described by the saying "stealing needles when one is young and stealing gold when one has grown up." For example, a 17-year-old larcener named Li used to steal fruit in his childhood. After going to school, he stole pens and stationery boxes from his classmates. After growing up, he committed theft here and there and was caught.

8. Methods used to commit crimes became increasingly crafty. One method was to travel to various places and rely on intelligence to commit crimes, such as forging certificates and seals and swindling. The second method was to wear masks to commit robbery to avoid being identified by others. The third method, which was used by the vast majority of the delinquents, was to make perfect plans before taking action. The plans included preset targets, division-of-labor arrangements, accomplices to serve as assistants, and channels for selling the stolen goods. After committing the crimes, they changed the scenes and destroyed evidence so as to avoid being caught. The fourth method was that to escape punishment by law, some delinquents bought books dealing with criminal investigations and the cracking of criminal cases so as to find out from the books strategies to escape arrest and punishment.



### Urban Residents Spend More Time, Money on Education

92CM0379A Beijing ZHONGGUO SHEHUI BAO  
in Chinese 17 Jul 92 p 3

[Article by Bao Guirong (7637 3855 5554): "Various Phenomena of 'New Culture'"]

[Text] With the accelerating pace of reform, and remarkable improvement in urban living standards, there is an ever-expanding interest in the pursuit of knowledge. This has resulted in a number of new phenomena:

1. Craze for books on stocks: Now, tens of thousands of residents are engaged in self-study of a special knowledge as if by prior agreement. They are doing this neither for attending college nor for getting a better job. Still less are they preparing to go abroad. The knowledge they are pursuing is on stocks. Their objective is to become qualified stockholders and display their expertise in the stock market in the future. Such being the case, books on basics of stock investment have become an item in great demand. According to a survey, the Nangang and Daoli branches of the Xinhua Bookstore and some private bookshops advertised as "gold book houses" in Harbin City have acquired several thousand copies of nine different titles dealing with stocks. These books are selling very well. Prospective stockholders buying the books include workers, intellectuals, and government functionaries. They hope to be prepared in advance so that they can use what they have learned to make money openly and legitimately once opportunities arise.

2. Craze for audio and video culture: Restricted by their time, transportation facilities, and economic conditions, most residents still rely on TV, video, and music as their pastimes. Families interested in singing may use karaoke to entertain themselves. Accordingly, they spend more money than ever on color TV sets, video cassette recorders, and high-grade music systems. A survey covering 300 families in Harbin City reveals that they bought 13 color television sets and five video cassette recorders in 1991, and the money spent for these two items exceeded the preceding year by 95.3 percent and 3.6 times respectively. Two sets of high-grade music systems were also purchased in 1991. To meet the requirements, there have appeared over 100 audio and video stores in the city, selling all kinds of audio and video tapes. In particular, audio tapes of old songs, such as those in memory of the leaders and the Ode to the Red

Sun, have enjoyed a good sale for a long time. Recently, these tapes have also been sold quickly to other provinces.

3. Craze for studying foreign languages: Due to the tides of going abroad and attending college and the needs of job promotion and negotiation meetings, a foreign-language craze has appeared in various provinces. Some people buy foreign-language books and engage in self-study. Others apply themselves to a systematic study of the televised foreign-language course. Still others engage foreign-language tutors. Incomplete statistics show that there are more than 300 foreign-language classes of one kind or another run by the government, the people, or private individuals. Among the students studying foreign languages are personnel to be sent abroad by the government, individuals going abroad at their own expense, medium- and low-level intellectual workers to be promoted, high-school students preparing for the national college entrance examination, and businessmen.

4. Craze for education investment: The craze for education investment, which started several years ago in families, has not declined. Pursuing extensive knowledge to become highly cultured is a long-cherished wish of most people. Hence, attending evening schools, visiting book markets, buying newspapers, and subscribing to magazines have become their indispensable interests in daily life. Investment in this regard has increased each year. In 1991, an urban resident of our province spent 27.96 yuan for education and related expenses, up 21.99 percent over the preceding year. The money spent for books, newspapers, and magazines was 9.96 yuan, exceeding the preceding year by 27.69 percent.

5. Craze for family education: With the progress of society and the development of high technology, people have once again realized that education is a basic program of vital and lasting importance. Not only has social and school education received great attention, family education has also become an item high on the agenda. Accordingly, family education seminars and tutorial classes have come into being one after another. Some people send their children to these seminars and classes. Others engage teachers to tutor their children at home. On the crowded street in front of the Qiulin Company, occasionally there are college students, advertisement placards in hand, offering their service as tutors. A survey shows that in 1991 an urban resident spent 40 yuan for education, including five yuan for teaching materials and reference books, three yuan for adult education, five yuan for children's education, and 26 yuan for engaging tutors and paying various tuition expenses.



### Relaxed Financial Policies Benefit Cross-Strait Trade

92CE0621A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 26, 29 Jun 92  
pp 21-22

[Article by Chen Taisheng and Lin Huilian: "Taiwan Relaxes Financial Policies To Benefit Cross-Strait Trade"]

[Text] The contradiction of letting investment start before financial institutions remains conspicuous in cross-strait commercial and economic exchanges. This contradiction has been criticized by the media and the industrial and commercial circles in Taiwan. Under the pressure of reality in promoting cross-strait exchanges, Taiwan authorities readjusted financial policies toward the mainland in the past six months. For example, at the end of 1991, Taiwan's "Executive Yuan" decided, after an evaluation, to regard renminbi as a negotiable security, and hold anyone who makes counterfeit renminbi legally accountable. In January 1992, Taiwan's "Central Bank of China" regarded changes in the value of renminbi and in the situation of entrepot trade as important factors in readjusting the exchange rate. At a press conference held on 22 May, Luo Jinming, General Manager of the China Trust Company in Taiwan, said that the Hexin Group would participate in a joint venture with Japan, Hong Kong and mainland China to operate a rental company in Xiamen, using the China Rental Company under its administration as a shareholder. This will be Taiwan's first financial organization that "landed" on the mainland. Taiwan authorities will also ease restrictions on the payee in executing an indirect remittance. They will also gradually change the current practice of allowing one-way remittances to two-way remittances. All these facts indicate that Taiwan authorities are gradually relaxing their financial policies toward the mainland.

Cross-strait economic and trade relations are becoming closer and closer each day. Also, for a considerably long time to come, the mainland will remain an ideal location for Taiwan's manufacturers and businessmen to make their investments and a fine partner for trading. This is an objective real factor that caused Taiwan authorities to relax their financial policies toward the mainland.

According to incomplete statistics, Taiwan's manufacturers and businessmen invested in 1,731 projects on the mainland in 1991, totaling \$1.288 billion, up nearly 13 times over 1987 with a trend of continuous growth. As for countries that have been the main outlet for Taiwan's outbound investment capital, Taiwan investment in Thailand tumbled from \$149.39 million in 1990 to \$86.43 million in 1991. Taiwan businessmen's investments in Malaysia suddenly dropped from \$2.2 billion in 1990 to \$1.2 billion in 1991. Right now, Taiwan's manufacturers and businessmen mainly invest in the mainland, Indonesia, Vietnam and other localities.

According to a poll conducted in Taiwan among entrepreneurs and businessmen who had travelled to the mainland, 49 percent of the pollees said that prospects for investments on the mainland were good and that they would increase their investments on the mainland. As for the situation in the mainland this year, another high tide of opening the country to the outside world has been whipped up in all parts of China, after Deng Xiaoping made an important speech during his inspection tour in Shenzhen and other localities. This also constitutes an important factor that has spurred Taiwan businessmen to make investments and set up factories on the mainland.

Giant strides have also been made in developing trading between the two sides of the strait in the past several years. The total volume of cross-strait trade in 1991 reached \$5.793 billion, of which the total exports from Taiwan to the mainland amounted to \$4.667 billion, up 42.36 percent over 1990, and Taiwan's imports from the mainland totaled \$1.126 billion, up 47.11 percent over 1990. The mainland became Taiwan's fourth largest trade partner in 1991, while it ranked sixth in 1988. The total volume of cross-strait trade during the first quarter of 1992 reached \$1.72 billion. The economic and trade relations between the two sides of the strait are becoming closer and closer each day. Solving problems on credit, remittance, exchange settlement and insurance would undoubtedly push the financial relations between the two sides of the strait to an even higher level.

As for changes in Taiwan's policies on cross-strait financial links, Taiwan is also relaxing such policies toward the mainland. Taiwan is now heading toward economic liberalization and internationalization. In 1991, it had approved the opening of 15 new commercial banks, and is likely to approve more in later years. This strategy will undoubtedly force banks in Taiwan to expand outside the island. With closer cross-strait economic and trade relations, Taiwan's financial circles must and definitely can find room for development on the mainland. Originally Taiwan forbade its banks to set up branch offices in Hong Kong. However, it had already permitted its banks to do so last year. Right now, Taiwan's Hua Nan, First and Chang Hwa commercial banks have set up branch offices in Hong Kong. Taiwan's "Statutes Governing Cross-Strait Relations (Draft)" follows the principle of mandated legislation and has adopted a "license system." The Conference on Economic Affairs in Taiwan held this year seriously studied the prospects on cross-strait financial exchanges. Taiwan's "Finance Ministry" submitted a report, entitled: "Study on Feasibility in Allowing Financial Institutions To Make Indirect Investments in the Mainland"; and offered the following suggestions: (1) Allow Taiwan banks to set up branch offices in Hong Kong. (2) Permit them to establish subsidiary institutions in the form of indirect investment and set up liaison offices on the mainland. (3) Allow them to make indirect investments on the mainland to run financial and rental businesses. With the development of cross-strait economic and trade relations,

Taiwan authorities are paying more attention to the desire of Taiwan's banking institutions to invest in the mainland. The list of service items to be given priority for mainland investments prepared by various ministries and departments concerned in Taiwan also included banking and insurance businesses. Right now, Taiwan's "Mainland Affairs Council" regards banking and service industries as mainland investment projects of the second stage. All this further indicates that a proposal to allow Taiwan's banking institutions to invest in the mainland is already on the agenda of the Taiwan authorities.

As for indirect remittances, Taiwan's "Finance Ministry" last year approved the "Main Points for Operating Indirect Cross-Strait Remittances" pointing out that people in Taiwan may use designed foreign exchange banks or the Postal Remittances and Savings Bank to indirectly remit their money to the mainland through Hong Kong or a third country. In the same year, the Taiwan authorities approved an application for "exporting goods from the mainland and earning documentary credits in Taiwan," and began to allow such practices at the end of 1991. As of the end of April this year, personal remittances from Taiwan to the mainland exceeded \$100 million, an average of over \$10 million per month. From January to April this year, 823 business transactions involving "exports from the mainland and documentary credits in Taiwan" were recorded, totaling \$85 million. In May 1992, Taiwan's "Bureau of Monetary Affairs" under the "Finance Ministry" decided that it would greatly relax the limit on funds to be indirectly remitted by various enterprises to the mainland, while making things easy for Taiwan investors to remit their investment earnings from the mainland back to the island. Chen Zaimu, director of the "Finance Ministry's Bureau of Monetary Affairs", said that the "Finance Ministry" would revise relevant regulations to allow banks to negotiate letters of credit from mainland banks and execute indirect remittances to Taiwan through any bank in a third country. In the future, Taiwan manufacturers and businessmen may remit their funds to the mainland indirectly, and funds on the mainland areas may be remitted to Taiwan through a channel of indirect remittance. Cross-strait remittances will become two-way instead of one-way, he added. This will be a new stage to operate indirect remittances in facilitating cross-strait businesses. Taiwan's "Finance Ministry" held a meeting on 26 May this year to annul the "Main Points for Designated Banks To Receive and Handle Commercial Letters of Credit From Mainland China," and revise the "Main Points for Designated Foreign Exchange Banks To Handle Inward Remittances From Mainland Banks for Any Remitting or Paying Bank," and the "Main Points for Financial Institutions To Execute Indirect Remittances to Mainland at the Present Stage."

Taiwan has also energetically made preparations for the exchange of securities between the two sides of the strait. First, the mainland issued B stocks in Shenzhen and Shanghai targeted for overseas investors. Realizing this favorable situation, Taiwan's investors have vied with

one another to invest in the mainland stock market through Hong Kong. Right now, there are two ways to make such investment: (1) Investments are made through stockbrokers in Hong Kong. (2) Indirect investments are made on the mainland stock market through established funds in Hong Kong. The Securities and Exchange Commission under Taiwan's "Finance Ministry" held a meeting on 29 May 1992 to discuss how to regulate the activities on the exchange of securities across the strait. This was the first discussion made by Taiwan's "Securities and Exchange Commission" on issues concerning the exchange of securities between the two sides.

An analysis conducted by government officials and bankers in Taiwan on the future prospect of cross-strait financial relations shows that efforts made by the Taiwan authorities to relax its financial policies is conducive to promoting the financial relations between the two sides. Wang Jianxuan, Taiwan's "Finance Minister" said that the "Finance Ministry" would definitely keep pace with Taiwan's mainland policy in helping set up links between banks and insurance companies across the strait at the appropriate time. He also said: "If the Executive Yuan wants the Ministry of Finance to express its views on links between banks and insurance companies across the strait, the Ministry of Finance wants to express its willingness to open up even wider." Right now, many Taiwan bankers are going to the mainland to gather information needed to explore the feasibility of investing in banking and service industries on the mainland. In May this year, General Manager of Taiwan's Grand Commercial Bank Ding Tongyuan led a group to visit Hong Kong and the coastal special economic zones on the mainland, and called on their mainland counterparts and Taiwan business organizations. In late June this year, officials of the Union Commercial Bank will visit Hong Kong and various localities in the mainland to conduct market research. The Cosmos Commercial Bank is seeking cooperation with the Hong Kong and Shanghai Bank in Hong Kong and the Sakura Bank in Japan. Zhen Shijin, President of the Cosmos Commercial Bank, said that these banks have branches in the mainland and that he planned to send some staff members to station in the branches of the aforementioned banks to collect information so as to study the feasibility in opening Cosmos' branches in mainland's coastal areas. Cai Mingzhong, son of the proprietor of the Fubon Property Insurance Group, said that as far as Fubon Property Insurance is concerned, many of the manufacturers and businessmen in Taiwan have already moved to the mainland. It is hard to do property insurance business when all the customers have left. Naturally banks have to go there, he said. According to what he knows, nearly all the Taiwan entrepreneurs on the mainland carry no insurance. Therefore, the mainland should be a good market for property insurance business. On 25 May this year, Chairman Lu Runkang of Taiwan's Da An Commercial Bank said that there is really plenty of room in the mainland for bank and service industries to develop. He believes that from a long-term point of view, banks must go to the mainland to provide banking services.

### National Assemblymen's Insatiable Desire for Power

92CM0397A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 281, 1 Aug 92 pp 28-29

[Article by Chi Yen-ling: "Li Teng-hui Should Read the Book *Faust* Once Again"]

[Excerpt] This is a real affair, and absolutely not a fabricated joke. One national assemblyman who worked on "constitutional amendments" recently called on a government leader, asking the latter to support him in the year-end election of the new legislature. Somewhat confused, this government leader asked: "You are doing well as a National Assembly deputy. Why do you want to be elected as a legislator?" The National Assembly deputy replied: "We, the current group of National Assembly deputies, have become 'idle' all of sudden after finishing the present task in amending the Constitution. We have nothing else to do. Therefore, we might as well participate in the election of the new legislature."

The pronunciation of Chinese characters meaning "constitutional amendment" and that of the Chinese characters meaning "idle" is identical, but the meaning of the two terms is different. After wrangling for 70 days at Yangmingshan, the national assemblymen descended from the mountain when the curtain had come down on stage. The idle national assemblymen ordinarily stay at home, attempting nothing and accomplishing nothing. They have nothing else to do. Thus, some of them came out to participate in the election of the new legislature, while others go all out to make money by posing as VIP's. Still others gather together in groups of three or five to work out plans to expand their power. After the Legislative Yuan passed the "Regulations on Payments to National Assembly Deputies" at the third reading, these idle national assemblymen have turned themselves into to a class of people with spare time, leisurely mood and idle money as described by the famous writer Lu Hsun. These idle people are looking for something to do. They will stir up trouble without any reason, and try to do whatever they like.

Naturally the main culprit causing these national assemblymen to be idle is none other than the Kuomintang. Its criminal act and intent are clear and evident. At first, it fabricates a magnificent lie about "nonpaying national assemblymen to amend the Constitution" and fraudulently won a large number of votes. Later, it stealthily listed its payments to the national assemblymen as an expense in the budget during the period in amending the Constitution, and secretly paid them. Since these were illegal payments, the Kuomintang dished up the "Regulations Concerning Payments to National Assembly Deputies" which had never existed for the past 40 years; and used force to directly turn over to the second reading this bill which looked like a fig leaf, thus creating a pernicious example in the history of the Legislative Yuan.

However, there are also some people who called the crime committed by the Kuomintang an act of "heroism." Due to the completion of the legislation of the "Regulations Concerning Payments to National Assembly Deputies," the definition of "nonpaying position" which was established several thousand years ago had been rewritten. The Kuomintang had performed meritorious service in rewriting this definition. The Kuomintang may be guilty of the most heinous crimes in terms of political development, but it has made unexpected great contribution to cultural development.

Killers will never admit their own crimes. The Kuomintang is no exception.

When some national assemblymen suggested a roll call to vote on the "Regulations Concerning Payments to National Assembly Deputies," Yao Eng-chi, Deputy Secretary of the Kuomintang Headquarters shouted at the assembly hall: "We must not create a precedent!" It is a regret that the precedent he did not want created was a roll call, and not using force to directly turn over the bill for the second reading. He wanted to create a pernicious precedent, not a good one. Was Yao Eng-chi tyrannical enough?

When the "Regulations Concerning Payments to National Assembly Deputies" was adopted after the third reading, Wang Chin-ping, head of the commission on the work of the Legislative Yuan under the Kuomintang Central Committee, expressed his regret over the "embarrassing conclusion" of the Legislative Yuan session. However, Wang's regret was not aimed at the force used to directly turn over the "regulations" for the second reading. He regretted the Democratic Progressive Party's deliberate boycott of the National Assembly session. A thief cried: "Stop thief." Wang Chin-ping is an expert in shifting blame to others!

Even more regretful was the fact that when the various department heads of the Kuomintang Central Committee reported the completion of the legislation of the "Regulations Concerning Payments To National Assembly Deputies" to their party leader Li Teng-hui, Li was somewhat puzzled, saying: "I could not think of any reason why national assemblymen should not get paid for convening a session!" Even the party chairman sided with the criminals. It sounded like the party chairman's amnesty with which even more heinous crimes could be rationalized and legalized.

"Power has the characteristics of self-expansion." This is basic common sense in political science. When national assemblymen got the money, their desire would never stop at that point. Their next step is a National Assembly Hall. Chen Ching-jiang, Secretary General of the National Assembly, also said that the hall was his next goal which he would fight for the national assemblymen. The next step will be the position of national assembly speaker. With the speaker as the leader of the national assembly, the next goal is to seize power from the Legislative Yuan to see who is the boss of the national

assembly. The more the national assemblymen get, the more they want. There are insatiable.

During the past 40 years, the national assemblymen held the Kuomintang Central Committee hostage only every six years. This six-year nightmare has already caused great political disorder. The national assemblymen are now able to "do evil" once every year. Each time, they can reap a great deal of money, and seize a great deal of power. If they fail in kidnapping or blackmailing, they would resort to threats and intimidations even to the point of killing hostage to vent their anger. All these are

something conceivable. In the future, the national assemblymen will force the Kuomintang Central Committee every year to do what they like. When the Legislative Yuan examines the national budget each year, it will criticize and wage struggles against the National Assembly. The National Assembly will be severely criticized by the public opinion when it holds a session each year. Government organizations at all levels will be violently disturbed by the national assemblymen. Isn't this National Assembly a thousand times more horrible than the most-wanted criminal! [passage omitted]



### **Poll on People's Perception of Political Groups**

92CM0389A Hong Kong MING PAO in Chinese  
27 Jul 92 p 2

[Unattributed article: "Pro-Beijing Organizations Conservative, One Group Clearly Lags Behind"]

[Text] A public opinion poll conducted by an independent market research company commissioned by this newspaper on the satisfaction level regarding safeguarding the interests of the Hong Kong people shows that those organizations with political views that are more conservative and those organizations with a pro-Beijing image all trail behind the political organizations of the democratic groups. In addition, the marks for level of satisfaction for the recently established Democratic Alliance for the Betterment of Hong Kong [DABHK], which flaunts a pro-Beijing banner, were slightly lower than the standard grade.

This "political group comparison" public opinion survey was conducted by the Hong Kong Statistical and Business Research Association, and was done first from 16 to 18 July. The survey was conducted using a random sampling method involving telephone calls to 626 Hong Kong citizens over the age of 18. Later, a similar survey will be conducted each season.

The respondents gave marks as to the degree of their satisfaction with each political group's safeguarding of the interests of the people of Hong Kong. The questioners, before reading out the name of each political group, gave the name of the highest ranking member of the organization to help the respondent make a mental link with the organization and its personnel.

The survey results reveal that the United Democrats, who won the majority of the directly elected seats in last year's Legislative Council [Legco] election, stood head and shoulders above the rest, obtaining an average mark of 67.7 when it came to the satisfaction level for safeguarding the interests of the people of Hong Kong. Second to the United Democrats were three groups, all democratic group organizations: the Hong Kong Association for Democracy and the People's Livelihood (62.19), the Meeting Point (57.7), and the Hong Kong Association to Promote Democracy (55.9). As for organizations with more conservative views and pro-Beijing images, in terms of satisfaction level for safeguarding the interests of the people of Hong Kong, they ranked in order from fifth to the very last. The Cooperative Resource Center mark was 55.28, the New Hong Kong Alliance had 53.58, the Hong Kong Liberal Democratic

Federation [LDF] had 53.03, while the DABHK was the only one among the eight groups that failed to reach the standard mark, receiving a mark of 49.16, lower than the 50 point standard mark.

The General Managing Director of the Hong Kong Statistical and Business Research Association which was responsible for the survey, Hong Ching-tian [3163 3237 3944] believes that this time the satisfaction level survey results were to a very high degree influenced by the debate on the Legco election voting system that went on before the survey was conducted.

The Legco, from 15 to 16 July conducted a debate looking at the Election Committee's report, which included a debate on the 15th that broke a record, going on until 0330 the next morning. The Cooperative Resources Center and pro-Beijing members supported the multiple-seat single-vote system, and the United Democrats and other democratic groups and independent members supported the single-seat single-vote system. Although both sides beforehand had made great efforts to mould public opinion, the result was that the single-seat single-vote system won out in the end.

Hong Ching-tian thinks that the United Democrats and the other democratic group political organizations, in the current debate over the current election voting system, have successfully mobilized figures in the different levels of society, who in the struggle for democratic ideals stand on their side. For this reason, the results of this debate have also to a great degree influenced this public opinion survey. Hong says that the pro-Beijing DABHK's "not up to standard" mark in terms of satisfaction level, is a little bit unusual. This is because in looking at past survey experience, one may realize that leftwing organizations are raising a proper banner, and for example, though the number of trade union association people is not large, the marks they gave were normally relatively high. Hence under circumstances where the number of those people capable of giving marks was taken as a basis for calculating the average mark, the marks the trade union associations gave the pro-Beijing organizations normally were unlikely to not reach the standard mark.

Now, the mark of the DABHK just barely falls short of the standard mark, and one explanation could be that this group is determined to change from an organization that only looks to the leftist groups, to an organization that looks to all of Hong Kong, and for this reason one can understand that they are under a situation of expanding their base, and their average value then for this reason was pulled lower.

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